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Chirac's first year
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Who lost Russia?
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World Business Newspaper

TUESDAY MAY 7 1996

US utility to buy British electricity group for $2.5bn

British company Midlands Electricity will announce today that it has accepted an all-cash bid from General Public Utilities of New Jersey that is likely to value the UK company at more than £1.7bn ($2.56bn). GPU, which will acquire Midlands in partnership with fellow US utility Cinergy of Cincinnati, approached the company less than two weeks ago after the UK government unexpectedly blocked a bid for Midlands by generating group PowerGen. Page 15

Crédit Lyonnais fire may cost $190m: The fire that devastated Crédit Lyonnais' imposing Paris headquarters could have caused more than FFr1bn ($190m) worth of damage, the French bank's chairman, Jean Peyrelevade, said. Page 2

Huntsman, the large privately-owned US chemicals company, is still pursuing British Petroleum's styrene and polystyrene business, thought to be worth more than £200m ($302m), after a sale agreement collapsed last year. Page 15

BSkyB plans 500 channels in UK: British Sky Broadcasting, the satellite television venture, is expected to confirm plans to launch digital satellite television in the UK in autumn 1997, offering up to 500 channels. Page 14

Philippines battles kidnappings: Philippine president Fidel Ramos ordered 56 courts to concentrate exclusively on kidnapping and related cases after a survey which said the Philippines was the most dangerous country in the region in which to do business. Page 14

Worries over Italian inflation: The fall in Italy's inflation rate halted last month, raising concern that the new government would struggle to meet the 3.5 per cent end-year target. Page 2

New World Infrastructure, the Hong Kong infrastructure arm spun off from New World Development last October, is considering a US$250m five-year convertible bond issue to fund projects. Page 21

Berlin plan follows referendum defeat: Berlin and the surrounding region of Brandenburg will establish a co-operation council after the referendum defeat for their plan to merge into a single state. Page 2

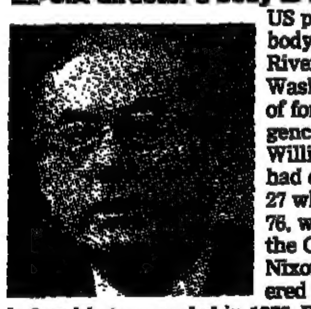
Pakistan telecoms sell-off delayed: The privatisation of Pakistan Telecommunications Corporation, the monopoly telephone company, may be delayed again until October. Page 21

Waigel wants to tax pensions: German finance minister Theo Waigel called for pensions to be subject to income tax as part of a reform of the country's pension insurance system. Page 2

Israel and PLO talks end: Israeli and Palestinian negotiators ended talks on a peace settlement as Tel Aviv brushed aside accusations that it knew civilians would be killed when it bombed a UN compound in Lebanon last month. Page 4

Malaysia unveils five-year plan: Malaysia forecast slower economic growth and an eradication of its current account deficit in its seventh five-year plan. Page 6

Ex-CIA director's body is found



US police identified a body found in a Potomac River tributary near Washington DC as that of former Central Intelligence Agency director William Colby (left), who had disappeared on April 27 while canoeing. Colby, 76, was appointed to head the CIA by Richard Nixon in 1973 and ushered in an era of reforms before his term ended in 1976. Page 2

Mandela clears new 'trek': South African president Nelson Mandela signed a plan for white farmers to settle in neighbouring Mozambique in a 1990s version of their ancestors' Great Trek in the 19th century. *Pretoria postpones poll, Page 4*

Mexican power plant set for start: Construction on a $647m Mexican combined cycle thermo-electric plant, for which a concession was granted in 1992, is set to begin in the next few weeks after years of delays. Page 4

Thai 'no confidence' vote: Thailand's opposition will tomorrow launch a three-day debate of no-confidence against the government of prime minister Banharn Silpa-archa - but the seven-party coalition is expected to survive. Page 6

Forest fire sweeps New Mexico: A fast-moving forest fire engulfed 25 homes and forced 2,000 people to evacuate villages in northern New Mexico. US firefighters said the 4,000-acre (1,600 ha) fire was moving through the Carson National Forest toward the Red River ski resort.

Sierra Leone boat accident kills 116: At least 116 people drowned off the coast of Sierra Leone when a boat capsized near Lungi outside the capital Freetown.

STOCK MARKET INDICES

Tokyo Nikkei	closed	
New York: lunchtime		
Dow Jones Ind Ave	5,433.96	(-44.07)
S&P Composite	637.23	(-4.40)

US lunchtime RATES

Federal Funds:	5¼%
3-mo Treas Bills: Yld	5.121%
Long Bond	86½
Yield	7.069%

GOLD

New York Comex (Jun)	$395.7	(394.1)

STERLING

New York lunchtime:

$	1.5080

DOLLAR

New York lunchtime:

DM	1.52605
FFr	5.15675
SFr	1.24435
Y	104.90

Tokyo Y closed

London markets closed

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lv130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kč60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zł 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)		Turkey	L80,000
France	FFr11.50	Lebanon	LL3,000		Es240	UAE	Dh12.00

Spain to cut spending by $1.9bn

Budget package plans investment boost

By Tom Burns in Madrid

Spain's new centre-right government will this week unveil a Pta250bn ($1.9bn) package of cuts in a mini-budget emphasising its commitment to joining a single European currency.

The package, drawn up by Mr Rodrigo Rato, the new economy and finance minister, will also include tax incentives aimed at boosting investment.

The spending cuts, for the current fiscal year, amount to 0.4 per cent of gross domestic product – more than double the Pta112bn cuts suggested by Mr Pedro Solbes, the outgoing Socialist finance minister, last month.

Mr José Maria Aznar, the new Popular party prime minister, served notice at the weekend that his priority was to ensure Spain would be financially fit to join the first group of single currency countries. This week's package is designed to impress that commitment on the money markets.

Mr Aznar's government was sworn in yesterday and is anxious to make up for lost time – it emerged as the largest party in parliament after the March 3 general election, and has since been in complex negotiations with Catalan and Basque nationalist parties to build a working majority.

Its chief challenge is to lower a consolidated budget deficit which stood at 5.8 per cent of GDP in 1995 to 4.4 per cent at the end of this year, then to wrestle it down to 3 per cent in 1997 to meet the Maastricht treaty deficit criterion for monetary union.

The package, to be enacted by special decree, involves postponing capital spending projects across all government departments, especially public works such as roads.

Mr Aznar, who has slimmed the cabinet from 15 to 14 members, also intends to generate savings by paring back a civil service which he claims grew excessively during the 13 years of Socialist administration.

When Mr Solbes suggested a similar, although less ambitious, reassignment of planned spending in early April, the Popular party said the strategy would harm economic growth. Mr Rato's mini-budget seeks to sustain business activity by including measures to boost investment.

A key ingredient of the package is a series of tax breaks allowing companies to accelerate depreciation of fixed assets. This is in line with Mr Aznar's pledge to support business, which he called "the true motor of our economy" when he set out his government's programme at the end of last week.

Mr Aznar hopes the Bank of Spain, which has an independent status modelled on that of the Bundesbank, will further fuel growth by cutting its benchmark interest rate today when it stages its 10-day auction for bank certificates. It lowered the rate half a point to 7.75 per cent a month ago.

Given Spain's current low inflation, analysts believe the bank has room to manoeuvre. The peseta is strong and data released yesterday showed that reserves grew by $4.3bn last month to $50bn, 37.5 per cent up on the total at the end of April last year.

Spy row erupts after Moscow claims arrest of British intelligence contact

Britain threatens tit-for-tat Russian expulsions

By Jimmy Burns in London and Sander Thoenes in Moscow

Britain last night was threatening tit-for-tat expulsions of Russian diplomats as Moscow prepared to expel up to four UK diplomats in one of the biggest spying rows since the end of the Cold war.

The UK Foreign Office described Russia's proposed action as "completely unjustified" and added that if the expulsions were confirmed, "we will clearly take appropriate action ourselves".

The row started when the Russian counter-intelligence agency, the federal security service (FSB), announced yesterday that a Russian citizen had been arrested last month as he made contact with a British intelligence officer.

The Russian government made it clear that it believed it had uncovered a significant western intelligence operation, and was prepared to risk a diplomatic row by confirming the expulsion of UK diplomats, probably today.

Some analysts suggested that the move was linked to next month's Russian presidential election. Mr Andrei Piontkovsky, a political analyst said: "The opposition accuses [President Boris] Yeltsin of being soft on the west. This is one of the easiest ways of showing you're tough."

But others argued that the expulsion of diplomats would be going much further than necessary for the government to make a show of strength for the voters.

A Russian militiaman guards the main gates of the British Embassy in Moscow on the day the spy row broke out
Picture: Reuter

The FSB described the arrested man as a civil servant who had sold political and strategic secrets to London.

Mr Andrew Wood, the British ambassador, was summoned by deputy Russian foreign minister Mr Sergei Krylov, and handed a list of names of diplomats who were deemed personae non grata for alleged espionage.

"It emerged during the very first interrogations that the young man had no ideological or political motives for his work," the Itar-Tass news agency said. "He did it for the money."

If tit-for-tat expulsions go ahead they would amount to the biggest UK-Russian spy row since the expulsion of Soviet and UK diplomats and journalists in May 1989 – 11 from each country – after the UK government claimed to have uncovered a major Soviet spying network.

The FSB is one of the two main intelligence services set up following the dissolution of the KGB. Regarded as more hardline than the SVR, the foreign intelligence service, it is led by Mr Mikhail Barsukov, an outspoken critic of the west, although yesterday's move appears to have had the approval of President Yeltsin.

A recent UK parliamentary report said Russian spying activities were increasing at a time when the counter-espionage resources of MI5 were being cut by 50 per cent.

It is understood that MI6 and MI5 are prepared to identify several Russian intelligence officers working under diplomatic cover in London, who would be included in any expulsion list if the spying row deepened. The UK government has been reluctant to make any move that might push Mr Yeltsin into a more aggressive anti-western policy.

Yeltsin firm on election date, Page 3

European consortium to bid for UK missile contract

By Bernard Gray in London

A pan-European consortium has been formed to bid for the £850m ($1.2bn) British contract to supply the Eurofighter with its main missile system.

British Aerospace and GEC of the UK have brought together Saab of Sweden, Alenia of Italy, Daimler-Benz Aerospace of Germany and Matra of France to produce a bid for the competition which must be submitted to the Ministry of Defence by next month.

The winner of the British competition, which is also likely to be contested by US manufacturers, could reap international sales worth several billion pounds.

The winning missile will almost certainly be adopted by the other Eurofighter nations – Germany, Italy and Spain – and be used on the Swedish Gripen aircraft.

Depending on the outcome of the contest, France may also eventually replace its current generation of missiles on its Rafale and Mirage 2000 aircraft with the new design.

The winner would then be virtually a monopoly supplier of long range air-to-air missiles for European-made aircraft, with substantial export prospects.

This new pan-European alliance heads off a potential split in European ranks. Matra and LFK, the missile subsidiary of Daimler-Benz Aerospace, had threatened to produce their own design for the UK contract, in competition with a longstanding BAe-GEC-Saab-Alenia grouping.

Now that has been avoided, the competition is likely to boil down to a fight between the European consortium and Hughes, the US defence electronics company, which manufactures the leading missile in the field.

The Eurofighter was originally designed to use the Hughes advanced medium range air-to-air missile (Amraam), but advances in Russian aircraft and missiles mean that a more modern weapon is needed.

Hughes can be expected to fight hard to win the UK contest, as it currently has a near

Continued on Page 14

German labour market still weak despite fall in jobless

By Michael Lindemann in Bonn

The number of Germans out of work has fallen below 4m for the first time this year, according to official figures for April released yesterday.

But the figures were described as "disappointing" by Mr Bernhard Jagoda, head of the federal labour office, amid signs that higher than expected spending on unemployment pay could put pressure on the planned DM70bn ($46bn) package of spending cuts unveiled by Chancellor Helmut Kohl last month.

Analysts said the improvement had come about mainly because the end of the severe winter had brought more workers on to construction sites, helping to revive the struggling construction industry, and could not be read as a sign of substantial improvements in the economy.

The headline figure for the number of people without jobs fell to 3.97m, or 10.4 per cent of the workforce, down from 4.14m in March. The seasonally adjusted figure showed that the number of jobless had fallen by 62,000 to 3.94m, down from 4m in March, but still 363,000 more than in April last year.

Mr Jagoda said: "The need for improvement after a bitter and long winter was much greater. All-in-all the labour market figures do not represent a positive report on economic developments."

Mr Thomas Mayer, economist at the US investment bank Goldman Sachs, said: "Abstracting from weather effects, the labour market remains weak." He added: "In particular, there are no signs of a pick-up in employment or an acceleration in the moderate increase of new job openings."

Any significant improvements in the labour market would depend on a rise in business confidence which had not yet been detected, Mr Mayer said.

Mr Jagoda warned that the higher-than-expected rise in the number of unemployed this year meant that his agency – which runs the country's unemployment offices and pays out unemployment benefit – was DM1.3bn over budget for the first four months alone.

The agency's growing deficit is likely to be of special concern to Mr Theo Waigel, Germany's finance minister, who plans to find at least DM8bn of the DM70bn planned spending cuts for 1997 by reducing the government's payments to the Nuremberg-based labour office.

In a further sign of the difficulties facing the government's DM70bn savings package, dubbed a "programme for growth and employment", the opposition Social Democrats yesterday warned that they would oppose any cuts in the size of federal government transfers to the labour office in Nuremberg.

Waigel tax plea spurs pensions debate, Page 2; Lex, Page 14

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LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Cost of Crédit Lyonnais blaze may be over FFr1bn

By David Owen in Paris

The cost of the fire that ripped through Crédit Lyonnais's imposing Paris headquarters on Sunday could be more than FFr1bn ($190m), Mr Jean Peyrelevade, the French bank's chairman, said yesterday.

As firefighters turned their attention to clearing away debris from the devastated building, Mr Peyrelevade told journalists that the cost "must be several hundred million francs" and was "probably more than a billion".

He said the fire was "one more difficulty" for the state-controlled institution, which recently announced a return to profit after stunning markets with a loss of FFr12.1bn in 1994. "But we will resolve it," he said. "The bank will perhaps be affected, but certainly not its clients."

His remarks came as traders normally based in the bank's main French dealing room for currency and interest rate markets – thought to have been entirely destroyed by the fire – sought to resume operations from three separate locations, with a small number dispatched to London.

Mr Peyrelevade said the bank's market operations were continuing as normal. "The big difficulty we are having is with our internal communications, but not with the outside world," he said.

The bank said safety deposit boxes located in strong rooms in its Paris premises, which occupies a block between the Bourse and the Opéra, had not been damaged by the blaze. The building houses about 9,000 safety deposit boxes.

The bank said measures were being taken to protect the goods deposited by clients. Clients would be "informed personally" as soon as the premises were accessible.

Mr Peyrelevade said the building, which is classed as a historical monument and normally houses 2,500 staff, was insured for between FFr1bn and FFr2bn with a pool of insurers led by Assurances Générales de France, this year.

Last year, the French government was forced to announce a rescue plan allowing the bank to remove FFr135bn of largely loss-making loans and investments from its balance sheet.

The blaze, which involved 150 firefighters, is one of the biggest disasters to have befallen a Paris office block in recent years. Firefighters are expected to keep up surveillance of the building for at least another four days.

The inquest into the cause of the fire is expected to be long and difficult. It is not yet known whether reconstruction of the late nineteenth-century building will be possible.

Observer, Page 13

Concerns over Italian inflation target

By Robert Graham in Rome

The steady downward trend in Italy's rate of inflation halted in April, raising concern that the new government would face an uphill battle to achieve the 3.5 per cent end-year target.

Consumer prices increased 0.6 per cent in April, giving an annualised rate of 4.5 per cent, according to figures released yesterday by Istat, the official statistics institute. In the previous four months the annualised rate of inflation had consistently fallen.

An Istat statement blamed the unexpected halt on the higher cost of petrol and an *increase in white meat prices* as consumers switched away from red meat in the wake of the scare over mad cow disease. The figures also reflected the weight of housing in the index, with rents showing their greatest increase in April.

Representatives of the three main trade union confederations immediately claimed the outgoing caretaker government of prime minister Mr Lamberto Dini had failed to tackle inflation and called on the incoming centre-left administration to give top priority to lowering consumer prices. Statements from all three con*federations said there was an* urgent need to protect wages from further erosion by inflation.

Under the 1993 agreement between the government, unions and employers abolishing indexation, wage increases were linked to productivity and programmed inflation. The actual rate of inflation has been consistently at least one percentage point higher each year.

The unions did not mention a return to wage-indexation, favoured by Reconstructed Communism, formed from the hard-line of the old commu*nists and an essential compo*nent of the centre-left government's parliamentary majority. However, they called for the introduction of an incomes policy.

The worrying aspect for the next government is that inflation remained at 4.5 per cent in April even though the lira strengthened and labour and production costs declined. In addition a six-month freeze on *a number of key tariff increases is due to end in* June.

Mr Antonio Fazio, the governor of the Bank of Italy, has made a cut in the discount rate conditional on inflation going below an annualised 4 per cent. Thus the April figures will also cast doubt on the central bank's ability to cut interest rates.

This cut is considered an essential step towards reducing the burden of debt service that weighs so heavily on the public accounts.

One of the main reasons for the overshoot in the latest quarterly accounts is that interest payments have failed to come down as expected.

As a rough guide it is estimated that over an 18-month period, a one *percentage point* cut saves L15,000bn ($9.6bn) in interest.

Mr Dini still appears undecided whether to carry out a *mini-budget to hold the* 1996 budget deficit on course for L109,000bn. In recent days the size of the corrective measures required has grown from L10,000bn to nearly L20,000bn.

If the mini-budget is of *this* size, some increase in taxes is likely. In this case Mr Dini would prefer the incoming government to assume political responsibility.

INTERNATIONAL NEWS DIGEST

Ex-CIA chief's body found

A body found in a Potomac River tributary yesterday was that of Mr William Colby, former CIA director. Police said Mr Colby's widow had identified the body that washed up near their weekend home about 40 miles south of Washington.

Mr Colby, 76, who disappeared while canoeing on April 27, was renowned as the former US spymaster who gave *congressional investigators evidence of CIA power abuses* in the 1970s and ushered in an era of reforms.

He headed the CIA from 1973 to 1976 and, in his retirement years, became one of America's best known experts on intelligence issues.

He had been the subject of a search by divers, sniffer dogs and helicopter teams since neighbours reported him missing nine days ago. *Reuter, Washington*

HK slowdown confirmed

The marked slowdown in Hong Kong's economy last year was confirmed yesterday by the release of statistics showing real growth of 4.6 per cent in GDP, compared with a revised rate of 5.5 per cent for 1994.

The downturn, which saw GDP rise by just 3.2 per cent in the final quarter, compared with the same period in 1994, reflected weak consumer demand and a slowdown in export growth.

Hong Kong's government is forecasting real GDP growth of 5 per cent this year, but economists expressed caution about a rebound. Mr Ian Perkin, chief economist at the Hong Kong general chamber of commerce, said growth prospects would depend on conditions in the Chinese and US markets and on whether there was a revival in Hong Kong consumer spending.

"All those things must be doubtful at the moment," he said, referring to trade and consumption statistics for the first three months of this year. "We are going to have a weak first quarter and a weak first half, so growth will depend very much on whether there is a strong pick-up in the second half." *John Ridding, Hong Kong*

Germany to reconsider land

Germany's federal constitutional court is to reconsider the case of the 3m hectares of land in eastern Germany expropriated during Soviet military rule between 1945 and 1949 but excluded *from restitution following German unification in* 1990.

The unification treaty of 1990 refrained from setting provisions for land expropriated between the second world war and the founding of the former East Germany in 1949, partly because of fears that the Soviet Union might block the whole unification project. Property expropriated after 1949 by the East German government or before 1945 by the Nazis was to be returned to the original owners.

The constitutional court upheld this decision in 1991 but has decided to reconsider it after a complaint by a citizen whose property was expropriated. *Frederick Stüdemann, Berlin*

Jobs cloud Australian prospects

Economic data released yesterday threw up conflicting signals on the state of the Australian economy and on the extent and timing of the widely expected recovery in the second half of this year.

Statistics showed consumers were happy to spend their money and private consumption was continuing to underpin economic growth in the first quarter of 1996, but the outlook for job seekers had darkened slightly.

Retail trade rose by 0.3 per cent in March, figures released by the Australian Bureau of Statistics showed. This was the 15th rise in the last 16 months, and continued a recent pattern of being above market expectations. Real retail trade in the March quarter rose by 1.4 per cent.

Also released yesterday, however, were weak figures in the ANZ Bank's job advertisement series, a forward indicator of the labour market. Job advertisements fell 8 per cent in April, the largest monthly fall since January 1994, and are down 14 per cent in the last three months. The series was at its slowest since November 1991, when the economy was emerging from recession. *Reuter, Sydney*

Hopewell firm on transit system

Hong Kong's Hopewell Holdings will maintain a majority stake in its long-delayed mass transit system for Bangkok, company chairman, Mr Gordon Wu said. He spurned offers from Italian-Thai Development, Thailand's largest contractor, and Bangkok Bank, the country's largest bank, to take over a majority interest in the $3.2bn project, and told the Bangkok Post: "I have given the government a commitment that I will keep the majority of shares in Hopewell (Thailand), and that is one of the main conditions the government set in awarding me the project. I cannot break my commitment."

Mr Wu said his Thai subsidiary was raising its registered capital to Bt15bn ($593m) from Bt6bn and that he would sell up to 30 per cent of the company to Thai investors. "If they want more than the maximum [of 30 per cent] we cannot meet their demands," *he said.*

Hopewell won a 30-year concession to build and operate the mass-transit scheme in December 1990 but piling did not begin until May 1994 and there has been only limited progress since then. Thai authorities have insisted the system be ready for the 1998 Asian Games in Bangkok. For several months, government officials have been looking at ways either to get Hopewell to speed up construction or cancel the company's contract. *Ted Bardacke, Bangkok*

Energy ministers to debate Italian compromise plan on liberalisation today

EU bid to break electricity deadlock

By Neil Buckley in Brussels

European Union energy ministers will today attempt to break a four-year deadlock over a proposed directive to open the electricity supply market to cross-border competition.

Italy, which holds the presidency of the council of ministers, has proposed a compromise aimed at bridging the wide gap between the positions *of states such as France*, which wants only limited electricity liberalisation, and Germany, which is calling for extensive and rapid liberalisation.

The Italian compromise has been broadly welcomed by member states, and officials close to the negotiations suggested yesterday there was a better chance of agreement than at any time since the Commission proposed the directive in February 1992.

One national delegation put the chances at "50-50", but another official said member states had shown considerable political will in recent weeks to reach agreement.

The sensitivities surrounding energy liberalisation, and the widely differing demands of member states, have made this one of the single market initiatives *where progress* has been slowest.

In the case of electricity, disagreement centres on the initial and eventual extent to *which markets will be opened* to competition, the speed of opening, and whether only large end-users should be allowed to buy electricity from cross-border suppliers or whether distribution companies should have the same right.

The compromise proposes a formula which would oblige member states to open to competition about 25 per cent of their market, accounted for by the biggest electricity users. The proportion would rise in stages to about 30 per cent of the market after nine years.

Ministers have previously rejected a variety of proposals, including *different targets for* market liberalisation for different countries, according to the proportion of their markets accounted for by large users.

During the latest discussions France has called for more limited liberalisation, and a longer transition of 12 years, but is thought to be prepared to accept the Italian plan.

Whether agreement can be reached today may depend on Germany, which has called for closer to 40 per cent of the market to be opened after only five years. Under pressure from industrial users which complain about high German electricity prices, Bonn is keen to promote competition.

Mr Günter Rexrodt, a German minister, hinted last week that Germany was not prepared to shift very far, warning *"no directive" was better than* a "bad directive".

The Italian compromise also proposes that electricity distribution companies would be *free to buy in the open market* the volume of electricity they were supplying to those larger customers that would be in the liberalised segment of the market.

The European Commission stressed it was anxious to secure agreement soon. "This is the best time to reach a compromise," an official said. "If the debate is prolonged, that will be counter-productive."

Mr Christos Papoutsis, energy commissioner, has said that if today's meeting fails to reach agreement, he will press for the issue to be debated by the European heads of government meeting in Florence next *month*.

There have also been suggestions the Commission could use special powers to push through a directive, or that the *slow progress of energy liberal*isation could become the subject of special negotiations in the *intergovernmental conference* on the future of the European Union.

Brandenburg vote disappoints German leaders

By Frederick Stüdemann in Berlin

The city of Berlin and the surrounding region of Brandenburg are to establish a bilateral co-operation council following the failure of the two states in Sunday's referendums to approve their merger into a single *Land* or state.

Mr Eberhard Diepgen, mayor of Berlin, said the council was needed to resolve disputes between the states and co-ordinate policy in areas such as structural planning, economic *development* and education.

The most immediate issue is where to site a new international airport for Berlin, which will be outside the city boundaries in Brandenburg. Other disputes include possible financial compensation to Berlin for Brandenburgers' use of services such as schools and hospitals provided by the city.

The result of Sunday's referendums – in which Berlin voters backed the *merger* while Brandenburgers rejected it – was greeted with disappointment by leaders of the two main political parties, the *Christian Democrats* and Social Democrats, as well as representatives from the business communities in Berlin and Brandenburg. All had hoped that a merger would deliver administrative efficiencies and stimulate investment.

"We will now have to follow the more difficult road of state treaties between the two *Länder*," said Mr Klaus Landowsky, leader of the CDU parliamentary party in Berlin.

Mr Erich Gerard, head of Siemens, Berlin, and president of the Association of Business Federations in Berlin-Brandenburg, said in a newspaper interview : "We will certainly experience a setback. The region is threatened with stagnation."

Opponents of the merger said the result demonstrated popular refusal to follow blindly plans served up by political and commercial élites. "I think we were closer to the people on this," said Mr Lothar Bisky, national chairman of the Party of Democratic Socialism, the reformed East German communist party, the only major political party to oppose the merger.

In Brandenburg, a former *east German state, 62.8 per* cent voted against, while 54.7 per cent of east Berlin voters also opposed the move. In the western part of the city, 58.7 per cent voted in favour.

The result of the referendums is seen as a setback for proposals to restructure the German *Länder* system through a series of mergers to create fewer and larger states.

"The decision clearly shows that the people do not want such big constructions," said Mr Gerhard Glogowski, interior minister in the western state of Lower Saxony, long seen as a candidate for merger with neighbouring *Schleswig-Holstein and the city* states of Hamburg and Bremen.

Mr Edmund Stoiber, premier of Bavaria, said the discussion over restructuring the states should not now be forgotten. Within 10 to 15 years, the number of *Länder* should be reduced from 16 to eight or nine, he said.

PDS leader Lothar Bisky (above) campaigns for a No vote while Berlin mayor Eberhard Diepgen (below right) and Brandenburg PM Manfred Stolpe toast each other after the negative results *Reuter*

Waigel tax plea spurs pensions debate

By Wolfgang Münchau in Frankfurt

Mr Theo Waigel, the German finance minister, has called for all pensions to be made subject to income tax as *part of a fun*damental reform of Germany's pension insurance system.

His comments, at a party meeting in Bavaria over the weekend, *reflect* a growing sense of unease inside the governing coalition about the state of Germany's pension insurance system.

Under the German state insurance system, employers and employees pay contributions into a pool, which pays out pensions on a formula based on the employee's final wage and the period of contribution.

Other senior politicians from inside the ruling coalition have warned that the current pen*sion system is safe only for the* current generation of pensioners.

"From a point of view of constitutional law it is not accept*able in the long run* that pensions are tax-free, while other forms of retirement income are fully taxed," Mr Waigel said.

Mr Wolfgang Gerhardt, chairman of the FDP – the liberal junior partner in the coalition government – yesterday called Mr Waigel's suggestions a "public scare".

The opposition Social Democrats are also firmly *opposed to* a tax on pensions.

Chancellor Helmut Kohl refused to comment directly on Mr Waigel's suggestions.

The increasingly polarised debate suggests that the consensus about social policy is breaking down.

The dispute has come only a *few weeks after the* government announced a DM70bn ($45.8bn) package of spending cuts. Next year, the government is planning to reform the pension system, which is in danger of collapsing under its own weight.

Mr Norbert Blüm, the labour minister and the longest serving minister in the Kohl cabi*net, has come under intense* fire over his support for the current system.

Critics say the system has had to take on too many extra *obligations*, such as the recent influx of pensioners from east Germany who are entitled to benefits but have made no contributions.

Chancellor Kohl said that the government planned to press ahead with a reform of the system by the end of 1997. Two commissions – one chaired by Mr Waigel, another by Mr Blüm – are to prepare the groundwork for reforms of the tax and pensions systems.

Mr Kurt Biedenkopf, the CDU premier of Saxony, called *at the weekend for the replace*ment of the current insurance-based system with a basic state pension. Mr Horst Seehofer, the health minister, also warned that pensions may no longer be safe for the next generation of pensioners.

A sudden replacement of the contribution-based system with a crude state pension may contravene the German constitution, so any change may have to be phased in over a long period.

Proposals so far include the creation of a state pension, taxation of pensions, a rise in the pension age, or a change in the pension formula.

Turkey crackdown on tax evasion

By John Barham in Ankara

Turkey's prime minister yesterday announced a crackdown on tax evasion as part of a drive to cut the government's budget deficit – forecast at $11.64bn, or nearly one-quarter of public spending, this year.

In his first first economic policy statement, however, Mr Mesut Yilmaz gave no estimate on how much extra revenues his tax measures would raise.

Nor did he give any details on how he proposed to reform the country's social security system. Economists say that the informal economy accounts for at least half of Turkey's economic activity.

His remarks come ahead of the arrival in Ankara this month of an International Monetary Fund mission to start talks on a new stand-by loan.

The statement's lack of substantial policy initiatives to tackle the deficit disappointed analysts – Mr Yilmaz's Motherland party has a highly regarded economic team.

The scale of the deficit – equivalent to about 7 per cent of GDP – is stoking inflation, which is running at 80 per cent a year. Analysts say the social security system deficit, one of the main components of the budget gap, could be 50 per cent more then the government's estimate of over $5bn.

Mr Yilmaz, who took office in March at the head of a minority conservative coalition government, said: "The government's most important mission is to make structural reforms. There is a need to restructure the social security system. Solving the problem with state resources is not enough."

He planned to reduce the social security deficit by encouraging private retirement plans but gave no details.

He also proposed tighter controls on government infrastructure investments, which traditionally *suffer large cost over*runs, and to increase spending on power stations to reduce the risk of blackouts.

Economic themes dominated Mr Yilmaz's his two-hour speech to journalists in Ankara. *He also planned to raise the* school leaving age and decentralise government.

Mr Yilmaz must surrender power in January to Mrs Tansu Çiller, his coalition partner and leader of the True Path party, under their power-sharing agreement.

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Russian president rebukes security chief for suggesting the poll be delayed

Yeltsin firm on date for election

By Sander Thoenes in Moscow and Michael Lindemann in Bonn

President Yeltsin (left) with Alexander Korzhakov, his blunt-speaking security chief

Mr Boris Yeltsin, the Russian president, yesterday rebuked his security chief for suggesting that next month's presidential elections should be delayed.

In an unusual rebuttal that illustrated concern for his image as the democratic incumbent, Mr Yeltsin insisted the elections would be held as scheduled.

Mr Alexander Korzhakov, chief of the Presidential Security Service and one of Mr Yeltsin's closest friends, sent a shiver down the spines of many Russians on Sunday when he said in two interviews that June's elections should be postponed to prevent bloodshed between rival parties.

Russian television broadcast new polls indicating Mr Yeltsin had caught up with Mr Gennady Zyuganov, the Communist front-runner, but other polls still show a wide gap.

"Several people, not only Korzhakov, believe that Mr Zyuganov's victory would be the beginning of a civil war," Mr Yeltsin said.

"I trust in the wisdom of Russian voters. That's why elections will be held in the period determined by the constitution."

Mr Yeltsin said he had "told Korzhakov not to meddle in politics and not to make such statements any more".

The president's remarks coincided with an appeal by a group of 13 prominent businessmen for the president to strike a compromise with Mr Zyuganov.

In a clear reference to Mr Korzhakov, the group said "extremist forces surrounding the main political players once again reared their heads" with "calls for an unconstitutional delay in elections".

A similar announcement by the group last week sparked a furious debate among politicians and the media, with most insisting that Mr Yeltsin could not invite Mr Zyuganov to join his government but should let voters decide.

Mr Korzhakov's remarks first appeared to have been a spontaneous response to a reporter from the Observer newspaper, but he then confirmed them to Russian reporters. Mr Korzhakov's few public statements have mostly been blunt and out of kilter with his superior.

In Bonn yesterday Mr Zyuganov, who was on a private visit to Germany, warned that "political chaos" would break out if the elections were postponed.

Mr Zyuganov said any such delay would be contrary to constitutional provisions which set out the timing for Russian elections.

"That would mean that on June 17, a day after the proposed election, every citizen of Russia could say: 'This is not my government. I did not vote for this president'. It would mean that political chaos would break out in Russia."

Mr Yeltsin has consistently said the elections would be held on time, but analysts predict he may change his mind if he does poorly in the first round, on June 16. Voting on that day should be followed by a run-off vote between the two leading contenders in July.

Hungarian bank offers help in sell-off dispute

By Virginia Marsh in Budapest

OTP, Hungary's powerful national savings bank, yesterday launched a scheme to help cash-strapped local authorities sell their minority shares in the country's partially privatised regional gas distribution companies (GDCs).

The scheme could provide a neat solution to a bitter and politically sensitive row between local government and APV, the state privatisation agency. The dispute has entangled the foreign gas companies which acquired control of the five GDCs last autumn.

Regional councils are together due to receive 40 per cent of the shares in the GDC in their area to compensate for past investments. But many are disputing the size of the stakes they are being offered.

An unclear communist-era law has also raised hopes among minority shareholders that they may be able to claim the same price per share from foreign investors as was paid to APV for its majority stake. Leading western utilities – including Gaz de France and Germany's RWE and Ruhrgas – paid a total of $460m for stakes of 50 per cent plus one vote in the GDCs.

OTP is offering to pool the shares, which are due to be split among more than 1,000 town and village councils, and to sell them mainly through a share offer and a stock market listing. It is also expected to give strategic investors the chance to increase their stakes.

OTP said it would pay local authorities 30 per cent of the price per share paid by strategic investors last year and split the proceeds if it managed to sell the shares for more in offerings planned for early next year. Its offer is dependent on it receiving at least 75 per cent of the councils' shares in each of the GDCs.

It claimed its offer was the best made so far to the municipalities. However, a senior privatisation official said some councils had already received far higher offers.

OTP has a virtual monopoly on local government banking. Some analysts suggested the councils, some of which are experiencing financial difficulties, might feel under pressure to sell their stakes to the bank.

OTP is being advised by Schroders, the UK merchant bank, and Creditanstalt Securities, the Austrian bank's local investment subsidiary.

Fight against inflation 'will remain priority'

Policy goals are outlined by Hungary's finance minister

Hungary's economic priorities will remain a steady reduction in inflation and net foreign indebtedness, against the background of structural reform of the social security and welfare system, according to Mr Peter Medgyessy, the Hungarian finance minister.

In an interview, Mr Medgyessy, who three months ago replaced Mr Lajos Bokros, the outspoken joint architect of Hungary's March 1995 austerity programme, said all his efforts "go towards reducing inflationary expectations and the causes of high inflation. These include a dysfunctional social security system and high interest rates".

Inflation, which fell to an average of 29 per cent last year, should decline further to about 20 per cent by December compared with a year earlier.

Last year Hungary reduced its net foreign debt by $1.5bn to about $18bn. It has enjoyed a steady rise in its credit rating since the austerity package that cut government spending and introduced higher taxes. A crawling peg devaluation system and an 8 per cent import surcharge also helped shift resources into exports and investment and cut imports.

The combination of devaluation, lower real wages and a 14 per cent rise in labour productivity in industry led to a sharp improvement in the competitiveness of Hungarian exports last year. Imports, meanwhile, were held back by the import surcharge and lower real incomes.

This year, however, Hungary faces a struggle to maintain this competitive advantage. Its currency, the forint, is appreciating in real terms as the 1.2 per cent monthly rate of crawling peg devaluation fails to keep pace with inflation, while the government plans a phased reduction of the import surcharge.

Last year the balance of payments improved by $1.5bn and $4.5bn in foreign capital flowed into the country. But Hungarians paid a high price as real incomes dropped 12 per cent and consumption fell 5 per cent. "Incomes will drop a further 2 per cent and possibly more this year," the minister added.

Looking ahead, Mr Medgyessy said Hungary could expect steady growth of 3-5 per cent over the rest of the decade in the official economy, supplemented by an unofficial "black economy" which contributed an estimated additional 30 per cent to the official GDP.

A new bankruptcy law speeding up the closure of loss-making companies, and the need to service the highest per capita debt in the former communist world, were constraints which precluded the prospects for higher growth without re-igniting inflation, he said.

Anthony Robinson

Nato hopefuls let their impatience show

The ex-communist states of central Europe, long frustrated by the technicalities that must be negotiated before they join the European Union, are now fretting about something else – western backsliding over Nato.

Diplomats from Poland, Hungary and the Czech Republic, seen as the prime candidates for Nato membership, have issued discreet warnings about an anti-western backlash in their countries if the enlargement process is delayed.

On one hand, a tour of former Warsaw Pact capitals by Mr Javier Solana, the Nato secretary-general, has fuelled hope that by early 1997 the alliance will lay out a detailed programme for absorbing new members.

On the other, the central Europeans are again detecting nervousness in some western quarters about the effect enlargement will have on ties with Russia, which is firmly opposed to the idea.

While Mr Solana was careful not to name countries or timetables, officials in Warsaw, Budapest and other ex-communist capitals were left with the impression that Nato was already working to a rough game plan.

Under this scenario the winner of the US presidential election will invite the leaders of Nato's 15 other member states to a summit next spring. The summit would settle the "who and when" of expansion, with first admissions by the year 2000.

Competition to be included in the first wave of enlargement will be intense. "Our voters would find it hard to understand if we were left out," said one Hungarian diplomat.

But there are still influential figures in western Europe who see no reason why Nato should be in a hurry to incur the damage to relations with Russia that expansion is bound to bring.

Mr Hans van den Broek, the European Union's external relations commissioner, is understood to have told officials in Washington last week that he saw "no evident urgency" in the proposal to enlarge Nato.

He also argued that the "wider context" – or, in plain language, ties with Russia – should be taken into account when setting a timetable. He added that there should be some correlation between the enlargement of Nato and the EU.

The commissioner believes that the EU is unlikely to accept any new members before 2002 at the earliest, so his proposal would imply a considerable slowing of the pace of Nato expansion.

The US State Department also says the two institutions should enlarge at roughly the same pace, but on US lips this formula has a different meaning: it amounts to a plea for the EU to avoid letting its own enlargement lag behind the brisk pace of Nato expansion.

In Germany, support for early Nato expansion has always been strongest in the defence ministry, while the foreign ministry – without opposing expansion – puts more emphasis on the need to maintain Russia's confidence.

Nato's southern members, and smaller countries such as Belgium, have often grumbled in private that expansion could dilute their relative weight in the alliance.

But in practice such doubts will probably be suppressed if the US takes a firm lead. In the disarming words of an Italian official: "We do not think Nato should enlarge against Russia's wishes. But it depends on Clinton, not on us."

Bruce Clark

Buthelezi fails to achieve go-ahead for KwaZulu/Natal poll

Pretoria postpones election

By Roger Matthews in Cape Town

The South African government agreed yesterday to postpone local elections in the troubled province of KwaZulu/Natal for the second time, after a tense cabinet meeting that lasted for over five hours.

Chief Mangosuthu Buthelezi, the leader of the mainly Zulu Inkatha Freedom party, argued strongly for the elections to go ahead as scheduled on May 29. He said later: "I hope this decision to postpone the elections will have a calming effect. I hope it will not unleash forces that we cannot control."

Chief Buthelezi had earlier threatened to walk out of the government of national unity, in which he serves as home affairs minister, if the elections were again put off as demanded by provincial leaders of the ruling African National Congress. But he said last night that the "unanimous" cabinet decision to put off voting until the end of June would strengthen his party's position.

Mr Chris Fismer, the minister for provincial affairs and constitutional development, said the postponement was designed to improve the atmosphere in the province and enhance the legitimacy of the elections, orginally scheduled for November 1 last year. The likelihood of a further delay increased at the weekend after three policemen and a civilian were injured when shooting broke out during an Inkatha rally in central Durban.

Ministers and political leaders yesterday shuttled between the cabinet meeting and the constitutional assembly where, after 18 months of negotiations, the parties were still struggling to reach agreement on the text of the new constitution just 36 hours before it must be put to the vote.

The ANC has gone ahead and printed its version of the final text, despite continued disagreements over three of its clauses. A two-thirds majority of the constitutional assembly is required for the constitution to be adopted, which forces the ANC to attract 18 votes from the minority parties.

If no last-minute bargains are struck, and the ANC fails to achieve a two-thirds majority, the draft constitution will be submitted to a panel of seven experts who will have 30 days to suggest possible compromises. Should that also fail to resolve the deadlock, the draft constitution will be put to a national referendum.

Political leaders are aware of the potential political damage that further delays will cause, and the risk of increased pressure on the rand. The currency has lost 18 per cent of its value against the dollar since mid-February and it weakened again yesterday.

The three issues blocking agreement on the new constitution are the right of employers to lock out workers during a strike; property rights; and the role of language in education. The ANC believes it has answered trade union demands that employers should not be given the constitutional right to impose a lock out, as demanded by the National party. This has been achieved by inserting an "interpretation" of the bill of rights which says provisions in the labour relations act, including the lockout, will remain in force until amended or repealed.

Israel pressed on UN shelling

By Julian Ozanne in Jerusalem

Israeli and Palestinian negotiators wound up inaugural talks on a permanent peace settlement yesterday as Israel brushed aside mounting accusations that it knew civilians would be killed when it bombarded a United Nations compound in Lebanon last month.

In the Egyptian Red Sea resort of Taba, Israel and the Palestine Liberation Organisation said in a joint communiqué: "The two sides reaffirmed their determination to put an end to decades of confrontation and to live in peaceful coexistence, mutual dignity and security."

Both sides said that negotiations on a permanent peace agreement would be long and tortuous involving questions that have been at the heart of the Middle East conflict for almost a century. The issues include control over Jerusalem, Palestinian statehood, final borders and the right of return of hundreds of thousands of Palestinian refugees.

However, Israel and the PLO said yesterday they were still committed to reaching a final agreement within three years based on UN Security Council resolutions calling for Israeli territorial compromise in return for peace.

The successful conclusion of the first round of final status talks will boost the campaign of Mr Shimon Peres, the Israeli prime minister, who faces tough elections later this month on a platform of making peace with Arabs.

But the growing row over Israel's possible disregard for civilian life in its 17-day bombardment of Lebanon last month will harm Mr Peres' credibility. Israel is under pressure to answer charges that it knew innocent Lebanese civilians, mostly women and children, were taking shelter in the UN base which it shelled, killing 102 people.

The UN has demanded that Israel answer the allegations. An army committee of inquiry has said Israel had no idea that civilians were using the UN base as a safe haven.

The army said it did not intend to shell the UN base and that the direct hits were a result of miscalculations as Israeli gunners sought to halt mortar and rocket fire by pro-Iranian guerrillas near the base.

Israel has also denied UN allegations that it had a spy aircraft in the area. However, a leaked UN amateur video, which is part of an investigation into the incident by Mr Boutros Boutros Ghali, UN secretary general, has shown a pilotless spy aircraft known as a drone near the UN base before the artillery bombardment. This has embarrassed the government.

Mr Peres yesterday denied Israel had lied when it said previously that it did not have a drone above the base. "No. This is a totally unfounded story," he said. "There was a drone in the vicinity but not above the place. And the fact that someone with a camera on the land has taken a picture of the drone doesn't mean that the drone was overhead and could have seen anything." However, the UN renewed its allegations that Israel had not been honest about the attack.

Sharansky aims at balance of power for Russian immigrants

Votes for the former Jewish dissident could damage Peres, reports **Julian Ozanne**

Natan Sharansky: seeks to teach Israel how to be more democratic and less oppressive *Tony Andrews*

Mr Natan Sharansky, a world-famous symbol of Soviet Jewish dissidence, was once the self-proclaimed king of the Russian Gulag. Now he hopes to emerge as the kingmaker of Israeli politics in the country's elections later this month.

Polls suggest Mr Sharansky's new Yisrael Ba'Aliya party, which represents the interests of about 650,000 new "Russian" immigrants who have arrived in Israel from the former Soviet Union since 1988, is likely to win six seats in the elections on May 29. This would be sufficient to give him the balance of power in Israel's next parliament.

If so, Mr Sharansky promises to teach Israel how to be a more democratic, liberal and less oppressive society, and to launch a crusade for a new Zionism.

"We are against the idea of Israel becoming a post-Zionist society and we are against the paternalistic Zionism and the melting-pot ideas of the old political parties," Mr Sharansky said yesterday.

He said: "We are for a new Zionism which will put new immigrants and more immigration at the centre and which will build a state capable of attracting more Jews and fully using their potential, their spiritual and mental riches which came out of the long struggle to survive."

But if Russians vote heavily for Mr Sharansky it could damage the electoral chances of Prime Minister Shimon Peres' Labour party, which won the overwhelming majority of Russian support in the previous elections in 1992.

A strong Russian party would redraw Israel's complex coalition political map. With Mr Sharansky more closely identified with the rightwing opposition to the peace process it could also endanger the fragile parliamentary coalition which has, sometimes with only a one-vote majority, just kept alive the Labour party's drive for Middle East peace.

The Russian vote has emerged as a critical force in the forthcoming elections. According to the voters' register the 450,000 new Russian immigrants who have signed up to take part in the poll comprise about 11.5 per cent of the 3.9m electorate or the equivalent of 13-14 seats in the 120 member Knesset. In 1992 the Russians, disillusioned with the previous Likud government's failures, voted by a large majority for Labour, helping it to regain power for the first time since 1977.

But, despite the efforts and resources devoted by the Labour-led government to absorb the new immigrants, Russian frustration remains high. Mr Sharansky, who previously spurned national politics, has built his party as the vehicle for discontent.

A poll published in yesterday's Yediot Ahronot daily newspaper showed 38 per cent of Russians backed Mr Sharansky's party compared with 24 per cent who said they would vote for the rightwing opposition and 21 per cent who support the Labour party.

> 'We are for a new Zionism. . . which will build a state capable of attracting more Jews'

Compounding the desertion of Labour by the Russians is the failure of the party to promote Russian parliamentary candidates in recent primary elections. Labour reserved one slot on its electoral list for a new immigrant but an Ethiopian won the position and Labour subsequently was forced to add Ms Sofa Landver, a Russian activist, to the list in an extraordinary vote by the party's central council.

The new immigrants are articulate and highly educated and, although just 10 per cent of them are unemployed, only a third are working in their traditional professions of science, technology and engineering. Many are still struggling to establish a decent standard of living in an increasingly wealthy Israel.

Furthermore more than half of Russian immigrants say in polls that Israel absorbs them with indifference or hostility. They believe they are more closely identified by native Israelis with the Russian mafia, prostitutes and pimps than with the phenomenal economic contribution they have made to the country.

Mr Sharansky has mobilised this discontent into a powerful political force saying that Israel has failed to make absorption of new immigrants one of the central pillars of Zionism, a priority equal to the peace process with Arab neighbours.

He said: "Every minister wants to become a member of the inner security cabinet but not the inner absorption cabinet. If a minister finds himself in the absorption cabinet by mistake they go to sleep there."

Many Israelis believe that the Russians, who received extensive government grants, complain too much given the overwhelming task the government faced in absorbing so many new immigrants. They also warn that Mr Sharansky threatens to re-ignite ethnic politics.

"The success of Israel has been the equivalent of the United States absorbing the entire population of France over a five year period," said Ms Deborah Lipson, an Israeli who has been active in Russian absorption for several years.

"No Russian is starving and none are homeless but for many Russians there are real reasons to gripe. Employment is of prime importance to Russian Jews because they define their social status by their professional status."

Israel's new system of direct election of the prime minister has also allowed an ethnically based political party to emerge. Mr Sharansky has told his supporters to follow their conscience in the two-man race for the premiership, where the issue will be overwhelmingly the peace process, and split their ticket to vote for his party for parliament.

Fortunately for Mr Peres 50 per cent of Russians support the Labour leader compared to 40 per cent who back rightwing challenger Mr Benjamin Netanyahu. But the Russian vote will take away seats from Labour in the parliamentary poll. At best the Labour party is expected to win 45-46 seats, leaving it 16-17 seats short of a parliamentary majority, assuming Mr Peres wins the race for the premiership as currently predicted by the polls.

So even if Mr Peres wins the premiership election he will be forced to strike a bargain with Mr Sharansky as the Russians take over the role of power-broker in coalition-forming which has been traditionally held by the ultra-orthodox parties. And Mr Sharansky, who makes further peace moves with Arabs conditional on greater democratisation of Arab regimes, is likely to strike a hard bargain.

Mexican power plant wins go-ahead

By Daniel Dombey in Mexico City

One of Mexico's most important infrastructure projects is set to get off the ground after years of delays. Construction on the $647m Samalayuca II combined cycle thermo-electric plant, for which a concession was granted in 1992, should begin in the next few weeks.

The 700MW plant, in the northern state of Chihuahua, will initially be fuelled by natural gas from Texas.

The project, which will be Mexico's first privately financed power plant, was stalled for years despite legal reforms in 1992 which formally opened up the Mexican electricity sector to private capital.

The final project documents were signed last week.

Particularly troublesome were thought to be the workings of the project's build-lease-transfer framework, which establishes that the plant will be run by the country's Federal Electricity Commission, which will acquire ownership 20 years after operations begin.

The project has become especially important because of the government's plans to attract nearly $9bn in investment in the power sector up to the year 2000. "The conclusion of the Samalayuca financing is key for the credibility of the process [of energy liberalisation] and also for creating a model to be used in future," said Dr Héctor Olea, president of Mexico's Energy Regulatory Commission.

Progress on Samalayuca may bode well for another long-delayed project, a 440MW plant known as Merida III, the cost of which the government has estimated at $900m. The Merida III concession should be granted in March 1997.

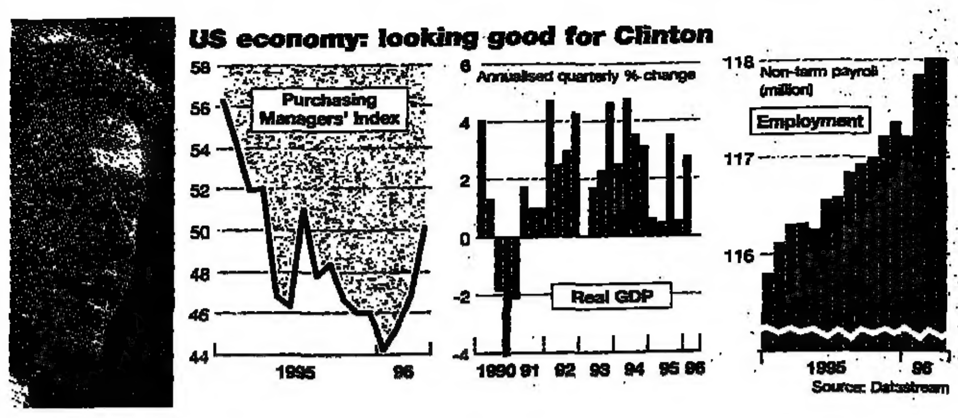
Despite Samalayuca's status as a big private sector initiative, a significant portion of the financing is coming from non-private sources.

The members of the consortium building the plant, including divisions of General Electric and Bechtel Enterprises and the El Paso Energy Corporation – all of the US – and Empresas ICA, Mexico's largest construction company, will provide $132m in equity financing, with GE Capital of the US responsible for 40 per cent of the total.

But although a group of banks led by Citibank of the US will provide $440m of debt financing, the money will be replaced after construction in 36 months' time with a loan from Exim Bank of the US.

Faster US growth spurs both cheer and alarm

Politicians, Wall St at odds, writes **Michael Prowse**



Signs of faster economic growth in the US are provoking very different responses among investors and politicians.

Earlier this year, the White House feared a stagnant economy might damage President Bill Clinton's re-election chances. Republicans sounded all too credible when they referred grimly to a "Clinton crunch" caused by tax increases imposed in 1993.

Mr Clinton, it was implied, might suffer the same fate as Mr George Bush, whose 1992 campaign was torpedoed by the perceived weakness of the economy.

But last week jubilant Clinton administration officials scrambled to claim credit for:

- The highest level of consumer confidence in six years and a belated recovery in the Purchasing Managers' Index, signalling an expansion of manufacturing production.
- Real economic growth in the first quarter at an annualised rate of 2.8 per cent, about twice as fast as expected and up sharply from 0.5 per cent at the end of last year.
- A fall in the unemployment rate to 5.4 per cent, matching the lowest level in the past 18 months and close to most economists' definition of "full employment".

On Wall Street the growth figures created a dour mood and sent the yield on the benchmark 30-year Treasury bond soaring above 7 per cent for the first time in nearly a year.

Yields on shorter-dated securities rose even more sharply, reflecting investors' fears that the Federal Reserve would be forced to raise short-term interest rates in the near future – if not later this month, then at its policy meeting in July.

The fragility of bonds has not yet caused a meltdown in the stock market. But it has created an uneasy mood: share prices are now moving sideways, having climbed rapidly for more than year.

Bonds are taking a hammering because of the violence of the change in financial expectations.

A few months ago, traders were seriously weighing the risks of recession. They had every reason to expect the Fed to cut short-term rates to about 4.5 per cent by late summer against 5.25 per cent today, a move that might have allowed long bond yields to drop below 6 per cent.

The hasty re-writing of economic scenarios has inevitably fuelled fear of inflation, which was bubbling up anyway because of recent sharp increases in the price of oil, grain and other commodities.

In Washington such worries are seen as greatly overstated.

The White House Council of Economic Advisers argues that the increases in oil and grain prices will be short-lived because they reflect temporary distortions.

Grain prices have soared because of the drought in the Midwest, but the impact on consumer prices will be modest because cattle herds will be slaughtered, reducing meat prices. An unusually long and cold winter, meanwhile, has put short-term pressure on oil stocks, most evident in soaring petrol prices.

Administration economists also emphasise that the economic rebound, while welcome, is so far comparatively modest. Growth at an annualised rate of 2.8 per cent should not be seen as threatening after a stagnant fourth quarter. Gross domestic product is only 1.8 per cent higher than in the first quarter of last year.

The composition of growth is encouraging: the strongest element was a surge in business equipment investment which grew at an annualised rate of 14.5 per cent in the first quarter. If investment stays strong, industrial capacity will rise, reducing potential inflationary pressures.

And although the jobless rate fell sharply last month, non-farm payroll employment (which is generally seen as the more important indicator of labour market conditions) rose by only 2,000. This was far below expectations and surprisingly weak following an average monthly gain of 221,000 in the first quarter. Employment fell significantly last month in manufacturing and construction, adding further credence to claims that growth will remain fairly modest.

Wall Street's fear of inflation, however, is unlikely to dissipate quickly. Analysts know commodity price increases do not necessarily translate into price gains at the consumer level. But they are uncomfortably aware that food and energy prices have often served as leading indicators of a broader-based rise in inflation.

And some acceleration in retail price inflation has already occurred: the consumer price index for April may well show a rise of 0.4 per cent for the third time in four months. This could suggest the annual rate of inflation is ratcheting up to a 3-4 per cent range against 2.5-3.0 per cent in the recent past.

But with the jobless rate so low, the single biggest worry is pressure from wages. Two indicators last week flashed warning signals. The wage component of the Employment Cost Index – the Fed's favoured measure of labour costs – rose more than expected in the first quarter. And in April average hourly earnings rose an unexpectedly sharp 0.6 per cent, taking the annual increase to 3.1 per cent.

Since the Fed is now committed to a policy of pre-emptive strikes against inflation, the risk of an increase in short-term rates has undoubtedly risen.

History suggests Fed officials have few inhibitions about tightening in an election year, but they prefer not to appear partisan by acting during the final stages of a campaign.

So if the economic data stay strong and the Fed decides higher rates are prudent, it is likely to move in the next few months.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

■ UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	13.5	8.1	6.49	7.67	3.43
1987	11.6	6.5	6.82	8.39	3.12
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.4	2.0	3.75	7.00	2.95
1993	11.6	1.2	3.22	5.86	2.78
1994	6.2	1.4	4.67	7.08	2.86
1995	-0.3	2.1	5.93	6.57	2.61
2nd qtr.1995	0.2	1.1	6.03	6.60	2.68
3rd qtr.1995	-0.6	3.0	5.79	6.32	2.53
4th qtr.1995	-1.8	4.0	5.73	5.89	2.38
1st qtr.1996	-2.4	5.1	5.30	5.89	2.21
May 1995	0.2	0.9	6.05	6.63	2.68
June	-0.1	2.1	5.94	6.16	2.61
July	-0.5	2.4	5.80	6.26	2.55
August	-0.5	3.1	5.82	6.50	2.55
September	-0.9	3.5	5.74	6.19	2.48
October	-1.5	3.7	5.81	6.03	2.48
November	-1.7	3.9	5.74	5.93	2.42
December	-2.1	4.3	5.63	5.71	2.24
January 1996	-2.6	4.6	5.42	5.64	2.26
February	-2.7	5.0	5.15	5.81	2.17
March	-2.0	5.6	5.31	6.26	2.19
April			5.38	6.50	2.20

■ JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	8.2	5.12	5.35	0.84
1987	10.5	11.5	4.15	4.64	0.55
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	-0.4	4.28	5.24	1.00
1993	3.0	1.4	2.83	4.18	0.87
1994	5.4	2.9	2.12	4.20	0.78
1995	8.2	3.2	1.12	3.39	0.86
2nd qtr.1995	6.1	3.3	1.23	3.27	0.93
3rd qtr.1995	8.6	2.8	0.86	3.05	0.86
4th qtr.1995	12.9	3.2	0.43	2.88	0.81
1st qtr.1996	16.6	3.0	0.49	3.16	0.76
May 1995	5.9	3.3	1.24	3.35	0.91
June	7.0	3.3	1.09	2.96	0.96
July	7.2	2.9	0.80	2.91	0.91
August	8.8	2.9	0.71	3.25	0.85
September	9.9	2.8	0.46	2.97	0.82
October	12.1	2.7	0.41	2.89	0.83
November	13.9	3.4	0.44	2.88	0.83
December	12.8	3.2	0.42	2.86	0.77
January 1996	14.2	3.1	0.45	3.10	0.75
February	15.7	2.8	0.50	3.19	0.75
March	16.4	3.0	0.51	3.18	0.77
April			0.49	3.23	0.71

■ GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	9.9	7.3	4.64	5.90	1.79
1987	9.0	7.3	4.03	6.14	2.21
1988	9.8	6.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.1	8.2	9.52	7.80	2.45
1993	9.4	7.9	7.28	6.47	2.11
1994	9.6	8.0	5.36	6.86	1.77
1995	3.7	-0.0	4.53	6.82	[illegible]
2nd qtr.1995	2.8	-1.1	4.60	6.87	2.09
3rd qtr.1995	3.2	-0.7	4.41	6.68	1.98
4th qtr.1995	4.9	1.3	4.01	6.52	2.02
1st qtr.1996	9.5	5.4	3.45	6.17	1.88
May 1995	3.7	-1.3	4.59	6.85	2.10
June	2.4	-0.7	4.53	6.70	2.06
July	2.9	-1.2	4.56	6.79	2.01
August	3.4	-0.6	4.46	6.71	1.97
September	3.5	-0.1	4.19	6.56	1.96
October	4.0	0.4	4.09	6.55	2.04
November	4.4	1.0	4.01	6.32	2.04
December	6.3	2.5	3.94	6.07	1.97
January 1996	8.2	3.7	3.62	5.90	1.88
February	9.7	5.9	3.35	6.18	1.86
March	10.6	6.7	3.36	6.44	1.91
April			3.33	6.39	1.88

■ FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	6.4	7.79	8.36	2.65
1987	4.1	11.5	8.63	9.46	2.75
1988	3.9	8.3	7.94	9.06	3.69
1989	7.5	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.32	3.19
1991	-4.9	2.4	9.62	9.03	3.58
1992	-0.2	5.4	10.36	8.57	3.55
1993	1.6	-2.2	8.55	6.75	3.21
1994	2.7	0.8	5.84	7.21	2.99
1995	8.8	4.8	6.50	7.53	3.17
2nd qtr.1995	1.3	3.1	7.47	7.59	3.10
3rd qtr.1995	3.3	3.9	6.12	7.35	3.11
4th qtr.1995	8.8	4.8	6.14	7.10	3.25
1st qtr.1996			4.47	6.55	3.10
May 1995	1.9	3.2	7.48	7.54	3.05
June	1.3	3.1	7.18	7.45	3.14
July	0.5	3.0	6.44	7.42	3.09
August	1.3	3.9	5.86	7.80	3.06
September	3.3	3.9	5.98	7.34	3.18
October	0.0	3.1	6.69	7.47	3.31
November	2.2	4.0	5.90	7.08	3.20
December	8.8	4.8	5.60	6.76	3.23
January 1996	4.6	3.7	4.70	6.44	3.08
February	4.7	3.1	4.42	6.58	3.11
March			4.27	6.64	3.10
April			4.00	6.51	3.01

■ ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	10.5	8.4	13.25	11.47	1.41
1987	10.4	9.6	11.32	10.58	1.94
1988	7.8	8.5	11.24	10.54	2.71
1989	7.1	8.3	12.42	11.61	2.46
1990	9.3	10.1	11.98	11.87	2.84
1991	7.3	8.5	11.83	13.20	3.45
1992	6.7	7.7	13.88	13.29	3.63
1993	4.6	7.4	10.22	11.23	2.35
1994	6.6	5.1	8.46	10.56	1.67
1995	0.6	0.6	10.38	12.22	1.72
2nd qtr.1995	-0.0	-0.4	10.69	12.71	1.76
3rd qtr.1995	0.0	0.6	10.52	11.79	1.64
4th qtr.1995	0.9	2.1	10.60	11.59	1.77
1st qtr.1996	-0.5	2.7	9.88	10.57	1.74
May 1995	0.5	-0.1	10.41	12.37	1.68
June	-0.2	-0.1	10.85	12.41	1.86
July	-0.6	-0.4	10.88	12.23	1.75
August	-0.0	0.4	10.44	11.67	1.58
September	0.6	1.5	10.26	11.49	1.61
October	0.5	1.6	10.69	11.94	1.76
November	0.5	2.0	10.60	11.64	1.81
December	1.6	2.6	10.51	11.18	1.74
January 1996	0.7	2.8	10.01	10.47	1.66
February	-0.9	2.6	9.84	10.54	1.67
March	-1.4	2.6	9.80	10.71	1.90
April			9.52	10.35	2.14

■ UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	4.0	15.4	11.02	10.21	4.35
1987	4.7	15.2	9.77	9.69	3.60
1988	6.8	17.3	10.41	9.62	4.48
1989	5.9	17.6	13.96	10.11	4.36
1990	6.3	16.1	14.82	11.56	5.07
1991	2.4	8.0	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.8	3.5	5.99	7.40	4.01
1994	6.4	4.9	5.57	8.01	3.94
1995	6.0	7.2	6.77	8.16	4.15
2nd qtr.1995	5.9	6.2	6.76	8.19	4.21
3rd qtr.1995	5.8	8.2	6.87	8.09	4.08
4th qtr.1995	5.5	9.3	6.71	7.77	4.04
1st qtr.1996	5.6	10.1	6.28	7.72	4.15
May 1995	5.9	6.4	6.79	8.13	4.19
June	5.6	6.8	6.73	8.09	4.17
July	5.7	8.0	6.89	8.23	4.11
August	6.1	8.4	6.88	8.10	4.07
September	5.5	8.2	6.83	7.92	4.06
October	5.2	8.9	6.81	8.09	4.04
November	5.8	9.3	6.73	7.76	4.05
December	5.7	9.7	6.57	7.46	4.04
January 1996	5.2	10.4	6.45	7.41	[illegible]
February	6.1	10.1	6.24	7.72	[illegible]
March	5.4	9.8	6.14	8.05	4.19
April	5.6		6.09	8.05	4.02

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

Five-year plan sees current account deficit transformed into surplus by 2000

Malaysia forecasts slower growth

By James Kynge in Kuala Lumpur

Malaysia yesterday unveiled its seventh five-year plan, which forecasts a slight easing in economic growth and an eradication of a worrisome current account deficit.

Gross domestic product is expected to grow at 8 per cent annually between 1996 and 2000, against 8.7 per cent a year in the previous five years.

Manufacturing will remain the main engine of growth but gains will be sought increasingly from productivity rather than by hiring more workers.

Higher productivity is identified as one of the economy's main new motors, with its contribution to GDP growth rising from 28.7 per cent in the last five-year period to 41.3 per cent in the next term.

Economists said the plan's growth target was achievable despite fears of overheating after eight consecutive years of growth at more than 8 per cent and the risk that a construction boom might yield a glut in commercial property.

"A lot can happen over five years but, judging by the current speed of economic activity, Malaysia may well exceed its 8 per cent target," one foreign economist said.

The authors of the plan, the Economic Planning Unit, forecast the current account deficit, which rose from M$11bn in 1994 to M$17.8bn ($7.14bn) last year, would turn into a surplus by 2000.

Officials said the deficit should not cause alarm as it stemmed partly from foreign companies importing equipment to boost production of exports. But some private economists have seen it as a sign of unhealthy growth, which could apply downward pressure on the currency, the ringgit.

The government's strategies for turning around the current account deficit include fostering local industries such as shipping, insurance, tourism and education to bring down the deficit's big services component.

Government spending on development is to increase 38 per cent from the previous five-year programme to M$162.5bn. Much of it will be ploughed into infrastructure projects such as roads, railways and airports.

"The development spending is within expectations," said one local economist. "It should not be too inflationary."

The plan is the most detailed of several macro-economic blueprints which order Malaysia's managed economy. It acts as a set of targets for policy-makers and as guidelines for private and state entrepreneurs on how the government hopes they will act.

● The chief minister of Kedah state, prime minister Mahathir Mohamad's home state, has resigned, the Malaysian premier said yesterday, ending months of speculation over the minister's position, Reuter reports from Kuala Lumpur.

The premier said Osman Aroff would continue as chief minister until a decision was made about his replacement. Last Friday, Salleh Said Keruak, head of the east Malaysian state of Sabah, resigned in line with a promise to rotate the job among the state's three main ethnic groups.

Charting course for technology age

James Kynge on problems facing planners trying to increase productivity

Abdul, a young man from Bangladesh manning a petrol pump, laughs when he says that the best thing about Malaysia is that "you can make a fortune here".

But to government planners trying to lead this nation up the technology ladder and into the developed world, the young pump attendant symbolises Malaysia's most intractable economic problem.

Mahathir Mohamad

In its seventh five-year plan, unveiled yesterday, the government made it clear that if a developing Malaysia was to compete successfully in the global economy, it had to upgrade its technology and boost labour productivity.

However, as the petrol station where Abdul works demonstrates, employers often find it cheaper to hire from about 1.2m immigrant workers than to fork out for new machinery which would sharpen competitiveness in the long run.

"The government wants us to change over to self-service pumps but they cost far more to install than it does to employ people," said the owner of the garage on a Kuala Lumpur street.

Economists say the garage's predicament is common to many areas of Malaysia's economy. The result may be to jeopardise a central plank in the five-year plan, which predicts that gains in productivity will contribute 41 per cent of gross domestic product growth over the next five years, up from 28.7 per cent during the last period.

The plan envisages gains coming from a "quantum leap" in education to improve workers' skills, the upgrading of information technology and improved management techniques. "We are talking about increasing the number of students in the science and technology streams from 89,219 in 1995 to 232,000 in the year 2000," said Mr Abdul Hassan Sulaiman, director general of the Economic Planning Unit, the premier government forecasting agency which drew up the plan.

"Education will be developed as an export industry," the plan says, noting that foreign universities have already been invited to establish branch campuses in Malaysia.

Local economists and managers at foreign multinationals welcome the drive to raise the level of know-how in the workforce but are concerned that it may be too late to redress a chronic shortage of engineers and other skilled workers for the next few years.

One manager of a high-tech foreign company said the problem of his engineers being lured away by competitors for higher salaries was his single biggest headache. For the wider economy, too, it has had detrimental effects and fuelled annual wage rises which some put at about 12 per cent.

"But," the manager said, "these are just the problems of success."

Malaysia's dynamic economy has grown at more than 8 per cent for the past eight years. The new plan envisages a slight easing to an average 8 per cent, against the 8.7 per cent in the previous five years.

Per capita annual income has risen from M$6,099 in 1990 to M$9,786 ($3,920) in 1995. The trappings of new wealth are manifest in Kuala Lumpur, where construction cranes are common and young couples cruise in imported Mercedes cars, adding to traffic jams which are beginning to rival Bangkok's.

Malaysian economy: on target

	6th plan Aim	6th plan Achievement	7th plan Aim
Real GDP growth	6.1%	8.7%	8.0%
Inflation	5.0%	4.0%	Low
Per capita GNP (M$)*	9,947	9,786	14,788
Unemployment*	2.8%	2.8%	2.8%
Public sector surplus/deficit as % of GNP	-3.2%	0.4%	0.2%
Current account surplus/deficit* as % of GNP	-1.6%	-5.8%	0.5%

Source: Malaysian government * end of period

The government is keen, however, to prevent a surge in imports of consumer goods as part of a strategy to turn the country's worsening current account deficit into surplus by the year 2000.

The plan predicts that the current account deficit of M$17.8bn (or 8.8 per cent of GNP) in 1995 will become a surplus of M$1.8bn in 2000, mainly by turning a merchandise trade surplus of M$630m in 1995 into a surplus of M$25.9bn.

Officials said administrative measures to limit imports were not planned but they acknowledged that local industry would be encouraged to manufacture import substitutes.

A heavy deficit in the services account will also be redressed by a series of measures aimed at reducing reliance on foreign shipping, insurance, education and finance services by nurturing local businesses.

Much growth will come from public spending on infrastructure projects, to be funded from a public sector allocation of M$162.5bn, a 38.3 per cent increase on the previous five-year period.

Roads, railways and airports are to be built from the allocation.

Thailand's PM poised to thrive on adversity

No-confidence debate's only victims will be troublesome ministers

Political sparks will fly in Thailand tomorrow as the opposition launches a three-day debate of no-confidence against the government of prime minister Banharn Silpa-archa. Several unpopular ministers are likely to be the target of sustained criticism, but Mr Banharn's seven-party coalition is expected to survive.

Banharn Silpa-archa: more confident on political stage

Instead, the debate is likely to bolster the surprisingly resilient prime minister. Many pundits had given him no more than a six-month lease on government when he was elected in June. Opposition allegations of "incompetence, sleaze and corruption" will merely give Mr Banharn the tools to remove some troublesome cabinet members.

Even the Democrat party, leading the opposition into the debate, concedes it will not unseat the government, which holds a 75-seat majority in the House of Representatives.

"No matter how good the information we present, we think the government will survive," says Mr Charoen Khantawong, a Democrat MP from Bangkok. "We just want to use the debate as an opportunity to let the people know what is going on and try to create some momentum for later."

A long list of charges will be laid, ranging from suggestions that the prime minister forged his master's degree thesis to allegations that deputy finance minister Newin Chidchob and deputy interior minister Suchart Tancharoen have profited from illegal land deals.

Along with Mr Surakiart Sathirathai, finance minister, these two ministers are most vulnerable as the opposition paints a picture of a government using political influence to ensure last year's estimated $680m investment in campaign spending pays off quickly.

But, notes Mr Pongpol Adireksarn, chief whip of the core Chart Thai party, "those ministers targeted are going to be questioned on personal matters, not issues of policy". Unlike former prime minister Chuan Leekpai, whose refusal to dump his tainted ministers partly led to his downfall, the politically ruthless Mr Banharn has said ministers must defend themselves. If they cannot, he will have no qualms about removing them.

Sheer numbers are on Mr Banharn's side. Defection by the two most disgruntled members of the coalition – the Palang Dharma and Nam Thai parties – would not be enough to force the government's collapse, as together they hold only 41 seats.

A third possible defector, the New Aspiration party, has not yet consolidated its strength enough to contest a general election, which it hopes would propel its leader, General Chavalit Yongchaiyudh, the politically ambitious defence minister, to the prime minister's office. Gen Chavalit has made himself useful as a political ally by ensuring the military – always a factor in Thai politics – is now controlled by his supporters.

Seasoned politicians, along with some businessmen and high-ranking bureaucrats, also say they like working with the Chart Thai party more than the Democrats, because principles rarely get in the way of a good deal.

"The Democrats want to hog the limelight, claim all the glory, because they think they are more principled than anyone else," says a western diplomat. "Meanwhile, people like Banharn are experts at giving everyone a slice of the action. Many politicians find this easier to deal with."

After some initial stumbles, Mr Banharn has grown into the premiership and has become more confident on the national and international stage.

His simple enthusiasm was a hit at the three big gatherings he has hosted – the Asia-Europe summit, the Asean summit and the South-east Asian Games – while he has apparently mended relations with the palace.

He handled the government's first brush with mass public protest, when thousands of farmers complained about government abuse of land rights, astutely: he gave into the protesters demands only after letting them roast for a month in the hot April sun, long enough for them to think twice about coming back soon.

Ted Bardacke and William Barnes

FINANCIAL TIMES

COMPANIES & MARKETS

Tuesday May 7 1996

IN BRIEF

DnB posts strong first quarter

Den norske Bank, Norway's biggest financial services group, posted first-quarter pre-tax profits of NKr783m ($119m), compared with NKr559m last time. Increased lending volumes, falling costs and an improvement in the bank's bad loan portfolio all contributed. Page 16

Static results for Hafslund

Hafslund Nycomed, the Norwegian pharmaceuticals and energy group which is due to demerge later this month, yesterday reported unchanged first-quarter profits at NKr456m ($69m), well below the near NKr500m expected by analysts. Page 16

Algy Cluff returns to mining

Mr Algy Cluff (left) has launched a mining company to concentrate on mining, exploration and development in Africa just four months after his Cluff Resources group was taken over by Ashanti Goldfields of Ghana for £80m ($120m). Cluff Mining is being financed privately by Mr Cluff, who collected about £1.6m for his Cluff Resources shares. CM has already been appointed manager of Sominki – Société Minière et Industrielle du Kivu – which produces tin and tantalite and owns gold deposits in eastern Zaire. Page 16

Berlusconi to gain from Mediolanum float

Mr Silvio Berlusconi and Mr Ennio Doris, joint owners of Mediolanum, Italy's sixth-largest life assurance company, stand to earn at least L120bn ($77m) each from the group's flotation in Milan this month. Page 18

CME mulls change to S&P future

Has the stock market rally of 1996 left the benchmark Standard & Poor's 500 index futures too big to trade? That is a question the Chicago Mercantile Exchange has been wrestling with for the past month as it considers the future of its S&P 500 index derivatives contracts. Page 21

New World Infrastructure convertible

New World Infrastructure, the infrastructure arm spun off from New World Development last October, is considering a $250m five-year convertible bond issue to fund existing and potential projects. Page 21

Moulinex falls 10% in Paris

Moulinex, the French household appliances group, which appointed a new chairman in February following a shareholder move to replace top management, fell FFr8.70, or 10 per cent to FFr78.30 in Paris. Brokers Cheuvreux de Virieu remained "very negative". It estimates the restructuring of the group would cost FFr500m-FFr1bn ($97m-$194m). Page 32

Farewell to mutuality

Within the next 18 months more than half the UK's biggest building societies look likely to have walked away from mutual status towards banking. The first will be the sale of National & Provincial to Abbey National this summer. Page 16

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
CKAG Col Prf	862	+	12
Kali & Salz	219.5	+	5.5
Linde	933	+	15
Falls			
Asko Prf	715	-	10
Goldschmidt	505	-	15
Zanders Feln	105	-	7
NEW YORK ($)			
Rises			
Agco Corp	28¾	+	1⅜
Scherer RP	41½	+	1¾
Zenith	18¼	+	2⅛
Falls			
Cycare Sys	41½	-	3⅛
Disc Auto Prt	28¼	-	1⅞
Harman Intl	47½	-	2½
TORONTO (C$)			
Rises			
Nowsco Well	32	+	2.65
QLT Photo	27.5	+	1.3
TVX Gold	12.4	+	0.95
Falls			
Biochem Pharm	58	-	1.6
Gear Films	25	-	1.0
Imax Corp	48	-	3.0
PARIS (FFr)			
Rises			
Banc Comp	572	+	11
Docks France	1062	+	47
Vallourec	258	+	7
Falls			
Accor	700	-	15
Air Liquide	902	-	14
Legrand	935	-	33
HONG KONG (HK$)			
Rises			
Fst Sign Intl	1.49	+	0.12
Shanghai Gwth	6.0	+	0.4
Tse Sui Luen	2.475	+	0.15
Falls			
Intl Bnk Asia	4.425	-	0.25
Nanyang Hlds	9.3	-	0.5
Oxford Prop	13.65	-	0.95

London, Bangkok and Tokyo closed. New York and Toronto prices at 12.30pm.

Midlands accepts GPU cash offer

Deal values rec at about £1.7bn as US rival is reportedly considering counter bid

By Patrick Harverson in London

Midlands Electricity will announce today that it has accepted an all-cash bid from General Public Utilities of New Jersey that is likely to value the regional electricity company at more than £1.7bn.

GPU, which will acquire Midlands in partnership with its fellow US utility Cinergy of Cincinnati, approached the company less than two weeks ago after the government unexpectedly blocked the acquisition of Midlands by PowerGen, the UK generating group.

Talks between the US bidders and Midlands started in earnest last week and the final details of the deal were thrashed out over the weekend.

Stock market analysts had predicted that GPU might offer more than 450p a share for Midlands, but the final price is likely to be lower than that, at somewhere between 430p-440p a share.

That would still be well ahead of the 371p a share Midlands agreed to accept from PowerGen last year before the deal was blocked by Mr Ian Lang, the trade and industry secretary, on the grounds that it would hinder competition in the generating market.

Although at least one other US utility – believed to be Houston Industries – was reportedly considering making a counter offer, investment bankers advising Midlands were last night playing down the likelihood that an all-out bid battle would develop for the company.

The acquisition of Midlands by GPU will give the US group a firm foothold in the UK electricity industry alongside its domestic rivals Southern Company and CSW, which acquired regional electricity companies (recs) of their own in the first wave of consolidation that broke over the sector last year.

GPU is acquiring Midlands in partnership with Cinergy because of US regulatory restrictions on overseas investment and the limits of its own size.

The group, which owns three utility companies operating in New Jersey and Pennsylvania, has a market capitalisation of about $3.7bn and last year made after-tax profits of $352.5m on revenues of $3.8bn.

The purchase of Midlands is expected to be the first of several takeover bids for UK recs by foreign – particularly US – utilities. At the moment, only five companies remain independent other than Midlands: Northern, Yorkshire, London, East Midlands and Southern.

Eurotunnel banks may outline plan by Friday to refinance

By William Lewis in London and David Owen in Paris

French shareholders were yesterday preparing to unveil their own refinancing proposals for Eurotunnel as it emerged that the first phase of talks between the Channel tunnel operator and its banks was likely to be completed by Friday.

The early stages of the negotiations will involve the banks, who are owed £8.4bn ($12.7bn) by Eurotunnel, outlining their proposals for the company's financial reconstruction to Sir Alastair Morton and Mr Patrick Ponsolle, the co-chairmen.

Final agreement on the refinancing is widely seen as being some way off, not least because several of the banks are critical of the refinancing programme being put to Eurotunnel.

The outline refinancing plan has been agreed by the six lenders in the steering group which is running the negotiations on behalf of Eurotunnel's bankers. The main plank of the proposals is a large debt-for-equity swap which could leave the banks owning nearly half the equity in the company.

The proposals were presented to the instructing banks, the next layer of 20 lenders, in Paris on Friday. Eurotunnel is yet to be formally notified of the proposals, although advisers said this was likely to happen tomorrow.

Any restructuring has to be agreed by all 225 banks and a majority of shareholders. Adacte, the French shareholders' group, has said it may begin a compensation action in the French courts against the banks for losses on shareholders' investments.

Two shareholder groups will tomorrow travel from Paris to Calais on a special train and release a 12-page booklet setting out an alternative refinancing plan, which would include the write-off of some debts.

Mr Michael Hart, manager of the Foreign & Colonial Investment Trust, one of the few institutional shareholders in Eurotunnel, said yesterday that Eurotunnel's argument that it should pay a lower level of interest on its debt "seems a reasonable view". Mr Hart was "hoping that some equity could be retained".

Separately, the company is set to ask the UK and French governments to extend its tunnel franchise to 99 years.

Lucas and Varity explore closer ties

By Peter Pearse in London and Richard Tomkins in New York

Lucas Industries, the automotive and aerospace equipment company, said yesterday it was in talks with Varity Corporation of the US "to explore a potential strategic combination of businesses".

It is thought the talks could herald a full-scale merger, worth about £2.85bn ($4.3bn) between the two groups. This would come as motor manufacturers demand that suppliers become global and produce total systems rather than components.

Mr George Simpson, currently Lucas chief executive but moving to GEC towards the end of the year, has stated that he expected to see consolidation in the auto-components industry, to leave about 20 systems makers by 2000.

It is thought that even if terms for a merger could not be thrashed out, some collaboration is likely – either agreements for joint marketing, manufacturing, or a venture in braking systems.

In March Mr Simpson rejected the possibility of a merger with Valeo of France, where a 28 per cent stake was up for sale. He has said he would prefer a big deal in the US or Pacific Rim, though Lucas is not in a position to make big acquisitions.

The synergies between Lucas and Varity look attractive. Both make automotive components and systems.

Lucas' automotive businesses account for about 80 per cent of the group's annual sales of about £3bn. The UK group is dominant in foundation brakes and mechanical braking systems, and is strong in Europe. Varity's Kelsey-Hayes leads the world in anti-lock braking systems for rear-wheel-drive and four-wheel-drive vehicles, and is the biggest brake systems manufacturer in the US. It sold $1.4bn worth of brake systems last year, producing operating profits of $111m.

It is also thought that Perkins, Varity's UK-based diesel engines subsidiary, would fit well with Lucas' diesel operations. Dayton Walther, the US group's brake and wheel components business, and Zecal, its specialist electronics arm, would also complement Lucas' brake components and electrical and electronic arms.

Varity, based in Buffalo, New York, is one of the biggest industrial companies in the US, but its chairman and chief executive, Mr Victor Price, 54, is British. Varity made net profits of $125.5m last year on sales of $2.4bn. Lucas first-half pre-tax profits rose 38 per cent to £61.6m.

Shares soar in Finnish maker of margarine that claims to cut cholesterol

Investors feast on a healthy spread

It costs six times as much as normal margarine and the chief executive of the company that makes it calls it "totally tasteless". Yet Benecol sells out virtually the moment it reaches the shops and international investors are scrambling to buy the shares.

The apparent contradiction is explained by one word: health. For Benecol claims cholesterol lowering properties which can sharply cut the risk of heart attacks. So popular has it proved that Raisio, the Finnish company which launched the product only six months ago, cannot meet demand even in Finland. But that has not stopped international investors beating a path to the small Finnish town after which the company is named to find out more.

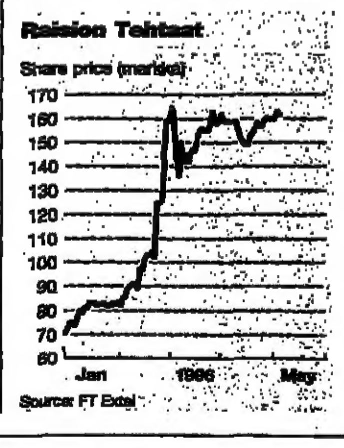
"Benecol has enormous potential," says Mr Michael Finney, an analyst with Kleinwort Benson in London. "It's a very simple way to eat yourself fitter." His view is that if consumers in Finland are so keen on it, they will go crazy about it in health-obsessed countries such as the US.

It is the latest in a rising wave of "functional foods" launched by European manufacturers keen to find high margin products. They claim that new ingredients such as carefully selected bacteria or soluble fibre bring health benefits.

With large manufacturers jumping into the category, functional products could, in the long term, account for about 5 per cent of all food sales, according to a study by the Leatherhead Food Research Association, the UK institute. At that rate they would generate retail sales of about $30bn a year in Europe and $100bn worldwide.

Among the most successful products so far, Gaio yoghurt from MD Foods of Denmark and fruit drinks with soluble fibre from SmithKline Beecham of the UK also claim to lower cholesterol levels. Nestlé of Switzerland makes a more general claim for its LC1 yoghurt. But brisk sales at premium prices of such products are nothing compared with the success of Benecol.

The hype over Benecol has brought a doubling of Raisio's



share price this year to FM150 and a quadrupling of its international ownership to 40 per cent. It has also left a company unused to the international spotlight somewhat dazed by all the excitement. "We have been overwhelmed by the product's success," says one Raisio executive.

Clinical studies have shown that plant sterols can help block the amount of cholesterol absorbed during digestion. The trick has been to get enough of them into a product such as margarine to make a difference. Helped by research at Finnish universities, Raisio has developed a sterol derivative called sitostanol that reduces cholesterol absorption more effectively than unaltered sterol. While normal margarines contain 0.5 per cent plant sterol, Benecol contains 9 per cent.

The credibility breakthrough came with an article in the New England Journal of Medicine highlighting the results of a 14-month Benecol trial. This showed that daily consumption of 25 grams of Benecol – the amount spread on two pieces of toast – reduced total cholesterol in the bloodstream by 10 per cent. More importantly, it cut more harmful LDL cholesterol by 14 per cent. This could be enough to reduce the likelihood of a heart attack by a third. Raisio says all the group's promotional material has been run past the Finnish health authorities without objection.

Controversy is building in some European countries over how food makers verify health claims for functional foods and how they advertise them. The European Commission has attempted but failed over the past four years to institute guidelines.

Some anomalies have arisen. In the UK, MD can advertise Gaio's cholesterol reducing powers on packaging and television having cleared them with broadcast authorities and trading standards officers. But a complaint from a watchdog group has prevented it running newspaper advertisements.

The efforts to tighten rules has been left to individual countries. The UK Ministry of Agriculture, for example, began six months ago to re-examine the issue.

The high price and strong health message to consumers make functional foods potentially one of the most lucrative sectors for producers. Benecol is the extreme example at FM100 per kilo compared with a price for normal margarine of FM16 or FM17 per kilo. But this has not stopped sales soaring past the company's targets. It now anticipates first-year sales of up to FM100m ($21m) – against the FM25m originally anticipated.

"The thing is, it will always be cheaper than medicines," says Mr Matti Salminen, Raisio's chief executive.

The company is coy about production levels and its broader ambitions. A potential bottleneck is its ability to get hold of sufficient sterol supplies. Until recently it has relied on a single source – a forestry mill in eastern Finland, which produces sterol as a by-product of pulp making. It says it has recently made progress in finding other suppliers.

The group is also moving rapidly to get patent protection. It has already secured patents in the US and Poland, and has applied for cover in most other industrial countries.

The key to the group's success will be its ability to expand beyond its domestic stronghold. An obvious possibility would be to seek a licencing agreement with a big multinational – Unilever has been rumoured as a potential partner – although the group is wary about ceding too much of Benecol to an outside company.

If Benecol is correctly marketed, Mr Finney at Kleinwort calculates it could capture 3-5 per cent of the developed world's spreading margarine market. He forecasts gross profits of more than FM1.2bn in 2000.

However, as Raisio executives point out, sterol can be put into other products apart from margarine. "We've put it in a margarine for northern Europe, because this is a sandwich-eating area and that's a good way to deliver the required daily dose. But it could come in any form – in the US, it could be a chocolate bar," says Mr Salminen.

Christopher Brown-Humes and Roderick Oram

Huntsman stalks BP styrene business despite collapsed talks

By Jenny Luesby in London

Huntsman, the large privately-owned US chemicals company, is still stalking British Petroleum's styrene and polystyrene business, thought to be worth more than £200m ($302m), after a sale agreement collapsed last year during price negotiations.

BP, which has been left behind in the styrene sector's sweeping consolidation, abandoned an earlier attempt to hive off the business for similar reasons.

On that occasion, in 1994, it announced a joint venture with Enichem of Italy. But while it wanted to own half the venture, its operation was far smaller than Enichem's and it was unwilling to inject any cash. After two years of talks, the venture was aborted.

Since then, BP's position in the European market has been eroded as its competitors have restructured to improve their positions.

In styrene, the top five producers now account for 86 per cent of European sales, while BP produces just 3.2 per cent.

The company lags similarly in polystyrene, where the top five producers hold 71.5 per cent of the market, and BP accounts for 5.7 per cent.

Last year's planned sale would have lifted Huntsman's share of the European polystyrene market to 11 per cent, and given it a foothold in styrene, the raw material used to make polystyrene.

BP Chemicals produces 275,000 tonnes a year of styrene, at Baglan Bay in Wales, and 175,000 tonnes a year of polystyrene at Wingles, northern France.

Styrene and polystyrene are not core activities for BP Chemicals, which specialises in polyethylene and acetyls, used in textiles, paints, plastics and food.

Huntsman has been keen to increase its European polystyrene business since acquiring an expandable polystyrene plant at Ribecourt, France, from Elf Atochem several years ago. It has a second polystyrene plant in Carrington, in the UK, but it has no European styrene production.

Following the breakdown of talks with BP, Huntsman announced an expansion at Ribecourt, and a doubling of capacity at its Carrington plant. It also agreed a styrene swap with BASF of Germany. From 1997, BASF will supply Huntsman with styrene in Europe, and Huntsman will supply BASF in the US. However, both Huntsman and BASF are keen to acquire more capacity.

A fond farewell to mutuality

Alison Smith on the changing shape of UK building societies

Whether you call it a procession or a stampede, within the next 18 months more than half the biggest building societies look set to have walked away from mutual status towards banking.

The first of the impending deals – the sale of National & Provincial to Abbey National – will be concluded this summer.

But four announcements in little over three months this year – together with the looming prospect of Halifax coming to the market – has given the process a characteristically British element of queueing.

For each deal, there are some landmarks: the mailing to members of detailed information; members' vote on the issue, which would generally (though not inevitably) involve a special meeting as well as an opportunity to vote by post; approval of the procedure by the Building Societies Commission; and, finally, completion of the deal.

The timings set out in the attached table can only be approximate, and the dates of particular stages for each society could slip or be brought forward.

One broad point to come through is how long the process is taking for Halifax, the UK's largest mortgage lender. Its original announcement that it planned to merge with Leeds Permanent, then the fifth largest society, and then convert to become a bank was made almost 18 months ago, in November 1994.

This stems partly from the complexities of the merger. Beyond the need to bring together two different organisations and product ranges, Halifax must establish a single customer register from the 10m savers and borrowers who were members of the two societies.

This "de-duplication" is unlikely to be completed much before the end of this year and will probably mean a combined base of 9m customers.

Another reason is sheer scale. Halifax will have an estimated market value of £10bn, and the flotation in which its savers and borrowers will be given free shares represents the single largest extension of share ownership in the UK.

The Halifax timing is bound to affect the other societies coming to the market – although the extent to which they admit this depends on their bravado.

But they do acknowledge that if they are looking to raise capital on flotation – either to meet the Bank of England's requirement for a "priority liquidation distribution reserve" on which depositors would have a prior claim if a society is forced into liquidation, or with a view to making acquisitions – then they will not want to coincide.

Another striking feature is the close timing for the current plans of Woolwich, the third largest building society, and Northern Rock, the eighth largest.

At present, it looks as though Woolwich will float just before Northern Rock, but the smaller society's timescale includes a significant margin for slippage and it could overtake Woolwich.

This prospect would be heightened if Woolwich were unable to find quickly a new chief executive to replace Mr Peter Robinson, who was ousted last month.

The timings for all the deals, both the flotations and the takeover of Bristol & West by the Bank of Ireland, also highlight how long the regulatory process of ceasing to be a building society can take.

The clearest example here is the Building Societies Commission advice to societies to allow three months for confirmation that the procedures have been followed properly.

It insists that this period is determined not by the pressure of deals, but by the amount of time that must be left for members to make representations if they wish.

Whatever the length of the process, it does bring a longer-term bonus for those that make it through to flotation: they will have swopped the turmoil and rumour of the mutual sector for the five years' protection from hostile takeover that former societies enjoy.

The move from mutuality

- **Late September/Early October 96:** transfer statement goes to 3m Alliance & Leicester savers and borrowers eligible to vote on conversion plan.
- **Mid-December 96:** special general meeting for A&L members to vote.
- **Early January 97:** transfer statement goes to the estimated 9m Halifax savers and borrowers eligible to vote on conversion plan.
- **End January:** transfer document goes to 1.1m Bristol & West savers and borrowers eligible to vote on planned £600m sale to Bank of Ireland.
- **February:** special general meeting for Halifax members to vote.
- **February or March:** transfer statement goes to an estimated 3.9m Woolwich savers and borrowers eligible to vote on conversion plan.
- **Mid-February/beginning March:** Transfer statement goes to 1m-plus Northern Rock savers and borrowers eligible to vote on conversion plan.
- **Beginning of March:** Bristol & West special general meeting to vote on planned sale.
- **End March 97:** latest expected date for completion of Building Societies Commission process of confirming the A&L deal.
- **March/April:** Woolwich special general meeting to vote on conversion, at or before its annual general meeting in April.
- **Early/mid-April:** special general meeting for Northern Rock members to vote on conversion, before the annual general meeting.
- **End April 97:** A&L floats.
- **May:** Latest expected date for completion of BSC process for confirming the Halifax conversion.
- **By mid-June:** Halifax floats.
- **Late June:** BSC should have completed process for confirming the B&W sale.
- **End June/July:** sale of B&W to Bank of Ireland completed.
- **Mid-July:** BSC should have completed process for confirming the Northern Rock conversion.
- **Mid/late July:** BSC should have completed confirmation hearing process for Woolwich.
- **August or September:** Woolwich floats.
- **Beginning September/beginning October:** Northern Rock floats.

Hafslund profit static ahead of demerger vote

By Hugh Carnegy in Stockholm

Hafslund Nycomed, the Norwegian pharmaceuticals and energy group which is due to demerge later this month, yesterday failed to live up to market expectations when it reported unchanged first-quarter profits.

Just a week before shareholders will be asked to approve a split of the company into its two parts, Hafslund said pre-tax profits in the first three months were unchanged at NKr456m ($69m) and well below the near NKr500m expected by analysts.

The pharmaceutical side suffered from lower prices for the group's world-leading diagnostic imaging products, while the energy side saw cuts in its hydro power production because of low rain and snowfalls in Norway.

Group turnover fell from NKr2.44bn to NKr2.36bn, leaving operating profits down from NKr539m to NKr470m. Lower research and development costs, down from NKr235m to NKr206m, and financial costs helped keep pre-tax profits at last year's level.

The main part of the Nycomed operations, Nycomed Imaging, which includes the injected liquids used to enhance X-ray diagnostic imaging processes, was hit by price pressures, knocking sales down from NKr1.27bn to NKr1.23bn. Operating profits fell from NKr607m to NKr553m.

Low river levels in Norway curbed electricity production at Hafslund Energy, reducing sales from NKr279m to NKr257m and operating profits from NKr56m to NKr30m. Hafslund said low snowfalls over the winter meant big cuts in production in the coming months was also likely.

The results were a disappointing start to a period of big change for Hafslund Nycomed. The split to be voted on next week was first mooted when the Norwegian group last year agreed a merger with Ivax, the US pharmaceuticals company, only to have the plan voted down by key Norwegian institutional shareholders. The company decided to go ahead with the internal split.

Analysts say the effect will be to make Nycomed more exposed as a medium-sized pharmaceutical group with an attractive main product line and it could become a target in the industry's wave of consolidation. A group of eight Norwegian power companies, all owned by local authorities, have already made a NKr4.1bn offer to buy the Hafslund energy operations and its distribution network.

DnB still enjoying record growth

By Hugh Carnegy

Norway's buoyant, oil-boosted economy helped Den norske Bank, the country's biggest financial services group, continue a two-year trend of record profits during the first quarter of the year.

Despite warning earlier this year the earnings surge could not be indefinitely sustained, DnB reported that pre-tax profits rose in the first three months from NKr559m last time to NKr783m ($119.3m).

Increased lending volumes – in contrast to still sluggish borrowing demand in neighbouring Sweden – falling costs and a further improvement in the bank's bad loan portfolio all helped lift earnings.

The bank also continued to benefit from a carry-forward of previous tax losses from the deep loan-loss crisis of the early 1990s. A tax charge of just NKr6m left net profits at NKr778m, up from NKr565m in the same period last year.

"The healthy results reflect the positive trend favouring Norwegian companies and households and the general improvement in their financial position," said Mr Finn Hvistendahl, chief executive. Economic growth is expected to be slower this year than the 4 per cent achieved in 1995, but is still set to be firmly positive.

DnB is still 72 per cent owned by the state following the government bail-out of the banking system during the loan-loss crisis. The state is understood to be considering a further reduction in its stake to 51 per cent.

The bank did see a fall in its net interest income, from NKr1.16bn to NKr1.07bn, because of narrowing margins between lending and deposit rates. But it was compensated by increased volumes as total lending grew NKr2.6bn to NKr131bn. Other operating income also fell, from NKr718m to NKr699m. However, costs were cut from NKr1.43bn to NKr1.13bn.

NEWS DIGEST

Stronger krona hits Aga in first quarter

Pre-tax profit, excluding capital gains, at Aga, Sweden's speciality gas company, dropped 13 per cent to SKr525m ($77m) in the first quarter of 1996 compared with the same period a year earlier. The group was hit by weaker trends in gas operations, partly due to a stronger Swedish krona. Sales declined to SKr3.22bn from SKr3.38bn last time. The profit drop, as well as the 4.7 per cent fall in group sales, mainly reflects the stronger krona. Adjusted for foreign exchange fluctuations, sales were up 3 per cent.

In the first quarter, Aga sold all of its stake in power company Gullspaangs Kraft, resulting in a capital gain of SKr1.6bn before taxes. Including that, first-quarter profit was SKr2.32bn. But core operations showed weaker trends. The group's operating profit tumbled 15 per cent to SKr457m.

Looking ahead, Aga said it expects full-year 1996 pre-tax profit, excluding capital gains, to be at roughly the same level as in 1995, or around SKr2.1bn. The profit drop reported by Aga was roughly in line with analysts' expectations. Core gas operations posted profits of SKr467m in the quarter, down from SKr500m. Investments in new plants amounted to SKr638m in the period, up from SKr483m.

AP-DJ, Stockholm

NeuroSearch plans global IPO

NeuroSearch, a Danish pharmaceuticals development company specialising in treatment of diseases of the central nervous system, plans a global public share offering this summer, which will be managed by Union Bank of Switzerland. Set up in 1989, the company concluded a collaborative development and licence agreement with Bristol-Myers Squibb last December for its most promising discovery to date, a compound for the treatment of Parkinson's disease.

The company has two other products which have been selected for clinical testing, one for treating anxiety and the other for treating brain damage following strokes. NeuroSearch made its first profit, of DKr4.5m ($800,000) in 1995 when turnover was DKr55.4m.

Hilary Barnes, Copenhagen

Czech telecoms group down

Pre-tax profits at SPT Telecom, the Czech operator 27 per cent owned by PTT Telecom Netherlands and Swiss Telecom, fell nearly 20 per cent in 1995 because of a sharp rise in operating costs. SPT reported pre-tax profits of Kc7bn ($252.9m) compared with Kc8.7bn in 1994. The 1994 figures were restated to reflect the consolidation last year of EuroTel, the mobile telephone joint venture in which SPT has a 51 per cent stake.

Revenues grew 16.7 per cent to Kc26.4bn because of the addition of 248,000 new telephone lines, increasing telephone density per 100 people from 20.7 to 23.3. Profits after tax fell to Kc4.8bn from Kc5.2bn. SPT is not paying a dividend. Total assets jumped to Kc103bn from Kc52bn. Mr Urs Kamber, SPT chief financial officer, said call revenue rose 25 per cent to Kc16.6bn, while revenues from international traffic fell slightly, to Kc2.1bn, because of the impact of lower prices. The 40 per cent rise in operating costs to Kc18.5bn was mainly due to a near-doubling of depreciation charges as a result of SPT's accelerated network development, which is aimed at doubling the number of lines by the end of the decade.

Mr Kamber said SPT had almost completed arrangements for a $500m syndicated loan, one of the biggest by a borrower from central Europe. The five-year multi-currency facility is priced at 25 basis points over Libor. The company's development programme is expected to cost nearly $5bn by the end of the decade.

Vincent Boland, Prague

FMC buys Frigoscandia unit

ASG, the Swedish transport group, is selling its Frigoscandia Equipment unit to FMC of the US for SKr1.25bn ($18.3m). ASG said the deal would result in capital gains of SKr250m. FMC will acquire the shares in Frigoscandia Equipment for SKr1.1bn and take over Frigoscandia's net debt, for a total value of SKr1.25bn.

ASG bought Frigoscandia for SKr1.8bn in October 1995. It said at the time it did not intend to keep the equipment unit. The company said that the capital gain figure from the deal had not been included in an earlier profit forecast for 1996, which indicated profits would exceed the 1995 level of SKr191m. FMC, with headquarters in Chicago, Illinois, had turnover of $4.5bn last year.

Reuter, Stockholm

Cluff in Zaire goldmining launch

By Kenneth Gooding, Mining Correspondent

Mr Algy Cluff has launched a new mining company just four months after his London-listed Cluff Resources group was taken over by Ashanti Goldfields of Ghana for £30m.

Once again, Mr Cluff will concentrate on mining, exploration and development in Africa. At the age of 56, he says it is his fascination for Africa and its potential for huge gold deposits, rather than any need for money, that is taking him back into the mining business.

His new company, Cluff Mining, has already been appointed manager of Sominki – Société Minière et Industrielle du Kivu – which produces tin and tantalite and owns four gold deposits in eastern Zaire. CM is negotiating to buy the government's stake in Sominki, which employs a workforce of about 5,000 and has 15 expatriates on its staff.

Zaire is one of the least-favoured African countries among mining groups. Mr Cluff says: "They said I was crazy when I went gold mining in Zimbabwe 10 years ago. And again when I went mining in Ghana five years ago. No doubt they will now say I'm crazy to go mining in Zaire."

CM is being financed privately by Mr Cluff, who collected about £1.6m for his Cluff Resources shares, and several unnamed business associates.

He stresses that CM will be a pan-African company and says it is at present negotiating for exploration licenses in countries other than Zaire.

Banro International Capital, a small Toronto quoted company, had an option on the gold deposits and will be CM's 50-50 partner in gold developments but not the other mining activities.

Mr Cluff has resigned from the board of Cluff Resources and says the parting with Ashanti was amicable. He has been appointed president of Sominki and remains, for the time being, chairman of Cluff Resources Zimbabwe. He expects ultimately to float CM on a "friendly" stock exchange.

COMPANIES AND FINANCE

Atlas Copco defies trend with 24% rise

By Hugh Carnegy in Stockholm

Atlas Copco, the Swedish engineering group, defied a trend among big Swedish exporters of falling profits in the first quarter, posting a 24 per cent increase in pre-tax earnings to SKr803m ($117.8m), compared with SKr647m at the same stage last year.

The result, which pushed up earnings per share from SKr2.23 to SKr2.94, was a welcome change for investors, and Atlas shares rose SKr3 on the day to close at SKr131.

The profits increase was in contrast to sometimes heavy falls in first-quarter profits from other Swedish engineering and forestry industry groups, such as Volvo, SKF and Stora, which have extensive exposure in Europe and North America and which offer a guide to broad market trends.

However, Atlas, a leading producer of compressors and drills which last year bought Milwaukee Electric Tool in the US for $550m, cautioned that the improvement could not be attributed to a rise in demand as underlying sales were little changed.

Instead, it warned that market conditions were "increasingly uncertain" and said it did not expect any pick-up in demand over the year. "We see that in our case the uncertainty has increased, not decreased, lately. Germany has not bottomed out as we had hoped and we are getting mixed signals from the US market," said Mr Hans Ola Meyer, head of finance.

Group sales did rise 7 per cent in the first quarter, from SKr5.63bn to SKr6bn, and orders climbed 8 per cent to SKr6.66bn – despite the effects of a stronger Swedish krona which depressed the value of sales by 8 per cent. However, Atlas said when the effects of acquisitions were excluded, sales had decreased by 6 per cent and orders by 4 per cent.

It said sales of standard compressors and power tools had declined during the first quarter. Offsetting this, efforts by manufacturers and mining companies to achieve productivity improvements meant sales of large compressor units and drill rigs had increased.

Increases were mostly in Italy, Sweden and Japan, while orders from Germany, the UK and Brazil fell.

Operating profits rose from SKr612m to SKr769m.

Pre-tax profits were boosted by a one-time capital gain of SKr342m from the sale of a hydraulics unit – but were hit at the same time by a SKr225m charge from restructuring costs within Atlas's industrial technique division.

Mr Meyer said the underlying profits increase of SKr74m was chiefly due to productivity improvements.

Turbulence prompts BWIA to change course

The Trinidad-based airline is reviewing its restructuring plans, reports Canute James

In the wake of the sacking of its chairman and the resignation of its chief executive after an unexpected loss last year, BWIA, the Trinidad-based airline, is reviewing plans to re-equip its fleet with Airbus aircraft.

The company will take delivery in July and November of two of the 12 aircraft originally ordered from Airbus, but is now likely to buy some aircraft from Boeing instead. It is also reconsidering the purchase of 10 commuter jets from Embraer of Brazil.

The airline, which was privatised a year ago when the government sold all but a 35 per cent stake, had planned to obtain nine Airbus A-321s and three A-340s over the next three years, replacing its current fleet of five Lockheed Tristar L-1011s and seven MD-83s. The A-321s are intended for BWIA's Caribbean, North and South American routes, while the A-340s are for routes between the Caribbean and Europe, including a daily flight to London.

A senior official of the government said privately that there was a reconsideration of the "commercial wisdom" of an all-Airbus fleet. It was likely that fewer aircraft than planned would be bought from Airbus, and that some Boeing 757s and 767s would be obtained.

The changes follow the sacking in February of Mr Edward Acker, the chairman, and the resignation three weeks later of Mr Edward Wegel, the chief executive. The two men led the consortium which bought a controlling interest in the airline when it was privatised. Mr Acker is a former chief executive of Pan American, Eastern Airlines and Air Florida, all of which are defunct.

The government assumed the airline's accumulated losses of $175m, and Mr Acker promised a net profit of $10.5m in the first year. In the event, BWIA returned a loss of $3.5m, with $2.2m of this coming in the last quarter.

The airline, however, faces a hurdle in flying the new aircraft on routes to the US. In implementing the International Civil Aviation Organisation's safety regulations, the US Federal Aviation Administration has designated Trinidad and Tobago's civil aviation agency as "category two".

This prevents airlines based in the country from flying new aircraft and new routes to the US until the local civil aviation agency improves its operations and gains a "category one" rating.

The potential dangers for BWIA are shown in the problems encountered by Air Jamaica. Its plans for re-equipping its fleet with six A-321s and six A-320s have been hampered by the "category two" rating, which left some of its new aircraft idle and cost the company several million dollars.

Air Jamaica has been given special dispensation to fly its new aircraft on routes to the US, although the civil aviation agency has not yet met the requirements for upgrading its status.

The Airbus 340: BWIA may look to Boeing for an alternative

"The authorities in Trinidad and Tobago are working diligently to upgrade the civil aviation agency," said Mr Michael Stanfield, BWIA's acting chief executive. "Our expectation is that we will be able to fly our new aircraft to the US. If not, then we will have to use them on other routes."

BWIA is also reviewing its plan to purchase 10 50-seater EMB-145 jets from Embraer of Brazil. The airline "has an option" on the Embraer aircraft, said Mr Stanfield. But government officials said that the $180m deal was "unlikely as conceived" and that any purchase from Embraer would be for fewer aircraft than was planned.

The company, however, is strengthening its presence in the regional commuter market through its purchase of a 29 per cent share in Leeward Islands Air Transport, a commuter airline which operates in the eastern Caribbean islands. The price of the transaction was not disclosed.

LIAT, based on Antigua, operates a fleet of nine de Havilland Dash-8s and six Twin Otters. It flies routes from Guyana in South America to Puerto Rico.

The turbulence which has hit BWIA's new management has left the government uneasy. "We are concerned about the level of management, and we are keen that the airline should be run on a basis which will make it a commercial success as was promised when it was privatised," said the government official. "We still own 35 per cent of the company, and it is in our interest to protect this investment."

Mr Stanfield expects BWIA to recover from last year's loss. "We are expecting, and we are planning on the basis that this will be a profitable year," he said.

Sales at GEA fall short of forecasts

By Michael Lindemann in Bonn

GEA, the leading German process technology group, yesterday reported lower than expected sales for 1995 and warned it did not expect significant increases in sales or profits this year because of stronger competition and a "restrained" economy.

Adjusted for a number of acquisitions, sales last year rose just 2 per cent to DM4.05bn ($2.7bn), against the DM4.2bn GEA had forecast last year.

Group net profits rose 12 per cent to DM111m, from DM99m a year earlier, while new orders, also adjusted for acquisitions, remained stagnant, in part because "some clients had postponed some orders". Dividends will remain at DM10 for ordinary shares and DM11 for preferential stock.

Mr Otto Happel, the chief executive whose family still holds a majority stake in GEA, said the "top priority" this year would be to consolidate the existing operations. This would include measures to reduce the amount of manufacturing GEA does itself and focus instead on buying in more outside components.

The Bochum-based group has expanded strongly in the past two years and the 1995 results reflected the first-time consolidation of Westfalia Separator, the mechanical separation specialist, and Otto Tuchenhagen, the liquid processing business. Including such acquisitions, 1995 sales jumped 23 per cent.

However, Mr Happel said Otto Tuchenhagen had reported losses which were "significantly worse than expected" and that GEA's profits had been dragged down by restructuring costs at Otto Tuchenhagen and a number of other subsidiaries.

Mr Happel said net profits had also grown more slowly than the unadjusted 23 per cent rise in sales because of the strength of the D-Mark against the dollar and a number of European currencies.

GEA plans to reduce its 17,833-strong worldwide workforce by about 500 this year.

COMPANIES AND FINANCE

Mediolanum owners to make L120bn from sale

By Andrew Hill in Milan

Mr Silvio Berlusconi and Mr Ennio Doris – joint owners of Mediolanum, the Italian life assurance and financial services company – stand to earn at least L120bn ($77m) each from its flotation on the Milan stock exchange this month.

Mr Doris, chief executive of Mediolanum, said the flotation, which will value the company at between L1,400bn and L1,700bn, offered a rare opportunity for investors to share in the growth of savings-related financial services in Italy.

About 22 per cent of the company will be floated through a combined public offer and institutional placing at L10,000 to L12,000 a share.

Mr Doris, who in 14 years has built the group into Italy's sixth-largest life assurance company, said 40 to 50 per cent of this year's profit would be distributed as dividends.

Fininvest, the family holding company of Mr Berlusconi, and Mr Doris's family companies will sell up to 12m shares each. A further 8m new shares will also be issued.

At the moment, Mr Berlusconi and Mr Doris each own half of Mediolanum, which was formed last year to simplify the partial flotation of the two entrepreneurs' insurance and financial services activities.

The flotation is part of a general programme of restructuring and disposals by Fininvest, the largest of which will be the public offer this summer of shares in Mediaset, the media company.

Mr Berlusconi, a former Italian prime minister, has been seeking to reduce debt at the Fininvest parent company and end accusations of a conflict of interest between his political and business activities.

Mediolanum expects to place up to 22m shares with Italian and foreign institutional investors, and at least 10m will be offered to ordinary investors, including Mediolanum's clients, employees and sales force. The price will be set before the opening of the offer on May 30.

A further 4.7m shares – the so-called "greenshoe" – will be held in reserve for placing with institutional investors within a month of the conclusion of the offer, depending on market conditions. Mediobanca of Milan is the main global co-ordinator for the placing, with SBC Warburg and Banca di Roma as joint co-ordinators.

Mediolanum reported net profits of L93.7bn in 1995, up 27 per cent on the previous year. In the first quarter of this year, the group said it had increased premium income by 44 per cent and deposits in its mutual funds by 6.1 per cent against the equivalent period.

See Observer

Tenneco offshoot may buy Hungarian power producer

By Virginia Marsh in Budapest

Tenneco Energy, a subsidiary of Tenneco of the US, has won a tender to negotiate the purchase of a 50 per cent plus one vote stake in an independent power producer in Hungary.

If the sale goes ahead, the company will add a further 140MW in capacity to a 60MW power plant at Dunaferr, Hungary's largest steel manufacturer. Total investment in the project, including the purchase price, will be more than $100m.

Tenneco Energy said it was the first such project it had undertaken in Europe and its second venture in the former Eastern bloc. In March, it formed a venture with Texaco to explore for natural gas in Poland. Mr Edward Casey, president, expects to announce further investments in Europe in "the very near future".

The stake is being sold off by Dunaferr and will involve a capital increase which will eventually give Tenneco up to 75 per cent of the gas-fired power plant. At present, the plant supplies the steel mill as well as thermal power to a local packaging company and the city of Dunaujvaros where it is located.

The investment is set to be the largest in Hungary's energy sector made by a US firm to date. Tenneco was one of several US companies which expressed an interest in last autumn's privatisation of much of Hungary's electricity and gas sector, the first sales of their kind in the region, but withdrew due to the tight timetable. Utilities from Italy, Germany and France dominated the sales, which netted the state nearly $3bn.

Privatisation is being accompanied by the liberalisation of the sector and, from next year, companies will be able to compete to sell power to MVM, the country's core electricity company, which operates the national grid.

PowerGen, the UK utility, last year became the first western company to buy a local IPP and has already embarked on an ambitious expansion and modernisation programme.

Tenneco officials said the company still had to negotiate power purchase agreements and other issues with MVM and the Hungarian Energy Office, but was hopeful these could be resolved shortly.

Other investors in the sector say existing agreements favour MVM, one of Hungary's largest and most powerful state companies, and are also awaiting a crucial government decision on price rises due in the autumn.

CGEA plans expansion abroad

By Haig Simonian

Compagnie Générale d'Entreprises Automobiles (CGEA), the transportation subsidiary of France's big Compagnie Générale des Eaux group, is developing plans to expand aggressively into the liberalised railway markets of several European countries.

The company, which has signed a seven-year contract to run trains on Network South-Central, the fifth-biggest of the former British Rail franchises, is also pushing ambitiously into Germany and Portugal.

CGEA is looking into projects to operate regional rail services in Germany after the introduction of legislation this year which handed responsibility for regional rail services to state governments, which can now decide to leave services with the national railways or grant operating concessions to third parties.

Mr Michel Quidort, CGEA's director of communications, said the company was also expanding its presence in Portugal. CGEA was involved with plans for a new light railway in Oporto, and was examining the idea of an additional rail crossing for the river Tagus.

While taking radically different approaches to increasing competition in rail services, the UK and Germany offered the best opportunities for expansion, said Mr Quidort. Apart from Network SouthCentral in the UK, CGEA is on the shortlist for the Chiltern and South Eastern franchises to be awarded later this year.

Mr Quidort would not comment on reports that the company was aiming for three to five UK rail franchises, but said CGEA hoped to build up a "portfolio" of franchises including regional as well as suburban services.

NEWS DIGEST

Campbell Soup lifts Arnotts stake

Campbell Soup, the US food manufacturer, yesterday picked up a further 3 per cent of Arnotts, the Australian biscuit maker, lifting its stake to just over 70 per cent. Campbells bought 4.17m shares at $9 each. This was 70 cents higher than Arnotts' closing price on Friday.

Campbells made a bid for Arnotts, one of Australia's largest listed food companies, in 1992, but the offer was strongly opposed and although the US company secured over 50 per cent of its target's shares, it failed to get to a level where it could compulsorily buy up the remainder.

Instead, the US group has been steadily raising its stake in Arnotts through the "creep" provisions of Australia's Corporations Law. These allow it to buy another 3 per cent of the company every six months. *Nikki Tait, Sydney*

Trelleborg fall matches forecasts

Trelleborg, the Swedish mining and engineering group, yesterday reported a 26 per cent drop in first-quarter profits, but the figures matched market expectations. Trelleborg's profit after financial items came in at SKr356m ($52.2m), down from SKr478m in the same 1995 period, but marginally better than the market consensus estimate of SKr350m.

Sales for the period edged down to SKr5.16bn from SKr5.32bn, but Trelleborg said volumes were almost unchanged. "Adjusted for movements in currencies and metals prices, volumes are by and large unchanged from last year," the company said. Operating profit fell by SKr90m to SKr262m, mainly because of a weaker performance from the group's largest business area, mining & metals, which suffered from lower metals prices, higher costs, and a generally weaker industrial cycle for the metals refining business.

The division's operating profit fell 32 per cent to SKr152m, while distribution, the company's second-largest division, reported a 37 per cent drop in operating profit to SKr78m.

Trelleborg Industri, which is responsible for the group's rubber operations, acquired the French rubber producer Caoutchouc Manufacture et Plastiques de Palport during the period. *Reuter, Stockholm*

Oil unit bolsters Horsham

Horsham, the main holding company of Canadian financier Mr Peter Munk, said a better performance by its Clark oil refining unit in the US improved overall first-quarter results. Net profit was US$6.8m, or 7 cents a share, against a loss of US$7.5m, or 7 cents, a year earlier, excluding gains on dilution. The results also reflect a reduction in Horsham's interest in Clark to 46 per cent from 100 per cent.

Horsham's contribution from Barrick Gold was little changed at US$10.8m. The contribution from Trizec, the big north American property group, was a also static at US$4.8m. *Robert Gibbens, Montreal*

CSR to sell Sydney Harbour site

CSR, the Australian sugar, building materials and aluminium company, is to sell its sugar refinery site on Sydney Harbour to Lend Lease, the property and financial services group, for A$76m (US$60m). CSR said that after it carried out remedial work on the area, the net proceeds should be about A$60m. The site is carried in CSR's books at A$58m.

Lend Lease said it planned to develop the large 11.7 acre site, to provide housing, commercial and retail facilities at an estimated cost of A$800m. It hopes to complete the project in time for the Sydney Olympic Games in 2000. *Nikki Tait*

Great Lakes targets Nowsco

Nowsco, the Canadian oilfield service group, has found a bid to surpass last month's C$27 a share offer from Houston's BJ Services. Great Lakes Chemical, the big US international producer of special chemicals for industry, has offered C$30.90 a share or C$895m (US$660m) against BJ's C$862m. It represents a 50 per cent premium over Nowsco's market price on April 2, the day before BJ announced its bid. *Robert Gibbens*

Nat Power eyes Hazelwood

National Power has confirmed it is considering making a joint bid for an Australian power station this summer. Responding to a Sunday Telegraph report that it was "poised" to make a A$1.5bn (US$1.27bn) offer for the brown coal-fired Hazelwood power station in Victoria in conjunction with Pacificorp, the US utility, National Power said the bid was one of several options for international expansion it was considering. *Agencies*

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 3, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7136.86	4750.00	3110.08	4535.89
Albania	(Lek)	149.199	99.3000	65.0167	94.8186
Algeria	(Dinar)	82.5234	54.9240	35.9615	52.4459
Andorra	(French Fr)	7.7578	5.1633	3.3807	4.9303
	(Sp Peseta)	191.629	127.540	83.5068	121.786
Angola	(Readj Kwanza)(1)	47755.5	31784.0	20810.6	30350.0
Antigua	(E Carib $)	4.0568	2.7000	1.7678	2.5782
Argentina	(Peso)	1.4964	0.9960	0.6521	0.9511
Armenia	(Dram)	609.640o	405.750	265.665	387.443
Aruba	(Florin)	2.6895	1.7900	1.1720	1.7092
Australia	(Aus $)	1.8858	1.2550	0.8217	1.1984
Austria	(Schilling)	16.1483	10.7476	7.0370	10.2627
Azerbaijan	(Manat)	6574.94o	4376.00	2865.19	4178.58
Azores	(Port Escudo)	236.058	157.110	102.869	150.022
Bahamas	(Bahama $)	1.5025	1	0.6548	0.9549
Bahrain	(Dinar)	0.5665	0.3770	0.2468	0.3600
Balearic Is	(Sp Peseta)	191.629	127.540	83.5068	121.786
Bangladesh	(Taka)	61.9782	41.2500	27.0084	39.3889
Barbados	(Barb $)	3.0220	2.0113	1.3169	1.9206
Belarus	(Rouble)	20133.5o	13400.0	8773.45	12795.4
Belgium	(Belg Fr)	47.1835	31.3800	20.5526	29.9737
Belize	(B $)	3.0050	2.0000	1.3095	1.9098
Benin	(CFA Fr)	775.780	516.330	338.067	493.034
Bermuda	(Bermudian $)	1.5025	1	0.6548	0.9549
Bhutan	(Ngultrum)	51.9115	34.5500	22.6216	32.9912
Bolivia	(Boliviano)	7.6027	5.0600	3.3130	4.8317
Botswana	(Pula)	5.0339	3.3501	2.1935	3.1989
Brazil	(Real)	1.4908	0.9922	0.6496	0.9474
Brunei	(Brunei $)	2.1076	1.4027	0.9184	1.3394
Bulgaria	(Lev)	150.273	100.015	65.4848	95.5025
Burkina Faso	(CFA Fr)	775.780	516.330	338.067	493.034
Burma	(Kyat)	8.8703	5.9037	3.8655	5.6373
Burundi	(Burundi Fr)	426.204	283.663	185.729	270.865
Cambodia	(Riel)	3455.75	2300.00	1505.93	2196.23
Cameroon	(CFA Fr)	775.780	516.330	338.067	493.034
Canada	(Canadian $)	2.0476	1.3628	0.8923	1.3013
Canary Is	(Sp Peseta)	191.629	127.540	83.5068	121.786
Cp. Verde	(CV Escudo)	124.663	82.9700	54.3246	79.2268
Cayman Is	(CI $)	1.2788	0.8511	0.5573	0.8127
Cent. Afr. Rep	(CFA Fr)	775.780	516.330	338.067	493.034
Chad	(CFA Fr)	775.780	516.330	338.067	493.034
Chile	(Chilean Peso)	611.142	406.750	266.320	388.398
China	(Yuan)	12.5159	8.3300	5.4541	7.9542
Colombia	(Col Peso)	1596.33	1062.45	695.639	1014.51
Comoros	(Fr)	582.621	387.701	253.847	370.209
Congo	(CFA Fr)	775.780	516.330	338.067	493.034
Costa Rica	(Colon)	305.045	203.025	132.931	193.865
Côte d'Ivoire	(CFA Fr)	775.780	516.330	338.067	493.034
Croatia	(Kuna)	8.3937	5.5865	3.6578	5.3345
Cuba	(Cuban Peso)	1.5025	1	0.6548	0.9549
Cyprus	(Cyprus £)	0.7124	0.4742	0.3105	0.4528
Czech Rep.	(Koruna)	41.5968	27.6850	18.1268	26.4359
Denmark	(Danish Krone)	8.8492	5.8897	3.8563	5.6240
Djibouti Rep	(Djib Fr)	240.400	160.000	104.760	152.781
Dominica	(E Carib $)	4.0568	2.7000	1.7678	2.5782
Dominican Rep	(D Peso)	20.9975	13.9750	9.1501	13.3445
Ecuador	(Sucre)	4651.74o	3096.00	2027.11	2956.31
	(Sucre)	4639.72s	3088.00	2021.87	2948.68
Egypt	(Egyptian £)	5.1360	3.4187	2.2380	3.2654
El Salvador	(Colon)	13.1544	8.7550	5.7323	8.3600
Equat'l Guinea	(CFA Fr)	775.780	516.330	338.067	493.034
Estonia	(Kroon)	18.3516	12.2140	7.9971	11.6629
Ethiopia	(Ethiopian Birr)	8.7145	5.8000	3.7976	5.5383
Falkland Is	(Falk £)	1	0.6656	0.4358	0.6355
Faroe Is	(Danish Krone)	8.8492	5.8897	3.8563	5.6240
Fiji Is	(Fiji $)	2.0941	1.3937	0.9126	1.3309
Finland	(Markka)	7.2136	4.8011	3.1436	4.5845
France	(Fr)	7.7578	5.1633	3.3807	4.9303
Fr. Cty/Africa	(CFA Fr)	775.780	516.330	338.067	493.034
Fr. Guiana	(Local Fr)	7.7578	5.1633	3.3807	4.9303
Fr. Pacific Is	(CFP Fr)	141.217	93.9881	61.5387	89.7475
Gabon	(CFA Fr)	775.780	516.330	338.067	493.034
Gambia	(Dalasi)	14.6494	9.7500	6.3838	9.3101
Germany	(D-Mark)	2.2948	1.5273	1	1.4584
Ghana	(Cedi)	2407.01	1602.00	1048.91	1529.72
Gibraltar	(Gib £)	1	0.6656	0.4358	0.6355

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	365.302	243.130	159.189	232.160
Greenland	(Danish Krone)	8.8492	5.8897	3.8563	5.6240
Grenada	(E Carib $)	4.0568	2.7000	1.7678	2.5782
Guadeloupe	(Local Fr)	7.7578	5.1633	3.3807	4.9303
Guam	(US $)	1.5025	1	0.6548	0.9549
Guatemala	(Quetzal)	9.2058	6.1270	4.0117	5.8506
Guinea	(Fr)	1497.99	997.000	652.786	952.017
Guinea-Bissau	(Peso)	27089.1	18036.0	11809.1	17222.2
Guyana	(Guyanese $)	208.687	138.900	90.9446	132.633
Haiti	(Gourde)	24.3045	16.1760	10.5912	15.4462
Honduras	(Lempira)	16.3322	10.8700	7.1171	10.3796
Hong Kong	(HK $)	11.6234	7.7360	5.0651	7.3870
Hungary	(Forint)	221.762	147.595	96.6379	140.936
Iceland	(Icelandic Krona)	100.995	67.2200	44.0123	64.1872
India	(Indian Rupee)	51.9115	34.5500	22.6216	32.9912
Indonesia	(Rupiah)	3499.32	2329.00	1524.91	2223.92
Iran	(Rial)	4507.50u	3000.00	1964.25	2864.65
Iraq	(Iraqi Dinar)	0.4671o	0.3109	0.2036	0.2969
Iraq	(Iraqi Dinar)	1502.50m	1000.00	654.750	954.882
Irish Rep	(Punt)	0.9659	0.6428	0.4209	0.6138
Israel	(Shekel)	4.8279	3.2133	2.1039	3.0683
Italy	(Lira)	2349.53	1563.75	1023.87	1493.20
Jamaica	(Jamaican $)	56.7194	37.7500	24.7166	36.0468
Japan	(Yen)	157.349	104.725	68.5687	100
Jordan	(Jordanian Dinar)	1.0653	0.7090	0.4642	0.6770
Kazakhstan	(Tenge)	100.187	66.6800	43.6588	63.6715
Kenya	(Kenya Shilling)	87.6259	58.3200	38.1850	55.6887
Kiribati	(Australian $)	1.8858	1.2550	0.8217	1.1984
Korea North	(Won)	3.2304	2.1500	1.4077	2.0530
Korea South	(Won)	1169.32	778.250	509.559	743.137
Kuwait	(Kuwaiti Dinar)	0.4502	0.2997	0.1962	0.2862
Laos	(New Kip)	1382.30	920.000	602.370	878.491
Latvia	(Lats)	0.8286	0.5515	0.3611	0.5266
Lebanon	(Lebanese £)	2372.45	1579.00	1033.85	1507.76
Lesotho	(Maluti)	6.5997	4.3925	2.8760	4.1943
Liberia	(Liberian $)	1.5025	1	0.6548	0.9549
Libya	(Libyan Dinar)	0.5342	0.3555	0.2328	0.3395
Liechtenstein	(Swiss Fr)	1.8676	1.2430	0.8139	1.1869
Lithuania	(Litas)	6.0100	4.0000	2.6190	3.8195
Luxembourg	(Lux Fr)	47.1635	31.3800	20.5526	29.9737
Macao	(Pataca)	12.0057	7.9905	5.2318	7.6300
Macedonia	(Denar)	57.2453	38.1000	24.9460	36.3810
Madagascar	(MG Fr)	5709.50	3800.00	2488.05	3628.55
Madeira	(Port Escudo)	236.058	157.110	102.869	150.022
Malawi	(Kwacha)	23.0409	15.3350	10.0406	14.6431
Malaysia	(Ringgit)	3.7472	2.4940	1.6329	2.3815
Maldive Is	(Rufiya)	17.6845	11.7700	7.7064	11.2390
Mali Rep	(CFA Fr)	775.780	516.330	338.067	493.034
Malta	(Maltese Lira)	0.5518	0.3673	0.2405	0.3507
Martinique	(Local Fr)	7.7578	5.1633	3.3807	4.9303
Mauritania	(Ouguiya)	204.536	136.130	89.1312	129.988
Mauritius	(Maur Rupee)	29.2161	19.4450	12.7316	18.5677
Mexico	(Mexican Peso)	11.2319	7.4755	4.8946	7.1382
Miquelon	(Local Fr)	7.7578	5.1633	3.3807	4.9303
Moldova	(Leu)	6.8664	4.5700	2.9922	4.3638
Monaco	(French Fr)	7.7578	5.1633	3.3807	4.9303
Mongolia	(Tugrik)	701.172	466.670	305.552	445.615
Montserrat	(E Carib $)	4.0568	2.7000	1.7678	2.5782
Morocco	(Dirham)	13.1529	8.7540	5.7317	8.3590
Mozambique	(Metical)	16737.9	11140.0	7293.92	10637.4
Namibia	(S A Rand)	6.5997	4.3925	2.8760	4.1943
Nauru Is	(Australian $)	1.8858	1.2550	0.8217	1.1984
Nepal	(Nepalese Rupee)	86.0182	57.2500	37.4848	54.6670
Netherlands	(Guilder)	2.5630	1.7058	1.1169	1.6288
N'nd Antilles	(A/Guilder)	2.6895	1.7900	1.1720	1.7092
New Zealand	(NZ $)	2.1885	1.4565	0.9536	1.3907
Nicaragua	(Gold Cordoba)	12.3449	8.2162	5.3796	7.8456
Niger Rep	(CFA Fr)	775.780	516.330	338.067	493.034
Nigeria	(Naira)	33.0550o	22.0000	14.4045	21.0074
	(Naira)	126.285m	84.0500	55.0316	80.2578
Norway	(Nor. Krone)	9.9629	6.6643	4.2980	6.2681

		£ STG	US $	D-MARK	YEN (X 100)
Oman	(Rial Omani)	0.5785	0.3850	0.2521	0.3676
Pakistan	(Pak. Rupee)	52.1596	34.7153	22.7299	33.1490
Panama	(Balboa)	1.5025	1	0.6548	0.9549
Papua New Guinea	(Kina)	1.9488	1.2970	0.8492	1.2385
Paraguay	(Guarani)	3050.08	2030.00	1329.14	1938.41
Peru	(New Sol)	3.6030	2.3980	1.5701	2.2898
Philippines	(Peso)	39.2604	26.1300	17.1086	24.9511
Pitcairn Is	(£ Sterling)	1	0.6656	0.4358	0.6355
	(NZ $)	2.1885	1.4565	0.9536	1.3907
Poland	(Zloty)	3.9970	2.6602	1.7418	2.5402
Portugal	(Escudo)	236.058	157.110	102.869	150.022
Puerto Rico	(US $)	1.5025	1	0.6548	0.9549
Qatar	(Riyal)	5.4702	3.6407	2.3838	3.4764
Reunion Is. de la	(F/Fr)	7.7578	5.1633	3.3807	4.9303
Romania	(Leu)	4612.68	3070.00	2010.09	2931.49
Russia	(Rouble)	7459.16m	4964.50	3250.51	4740.51
Rwanda	(Fr)	330.550	220.000	144.045	210.074
St Christopher	(E Carib $)	4.0568	2.7000	1.7678	2.5782
St Helena	(£)	1	0.6656	0.4358	0.6355
St Lucia	(E Carib $)	4.0568	2.7000	1.7678	2.5782
St Pierre	(French Fr)	7.7578	5.1633	3.3807	4.9303
St Vincent	(E Carib $)	4.0568	2.7000	1.7678	2.5782
San Marino	(Italian Lira)	2349.53	1563.75	1023.87	1493.20
Sao Tome	(Dobra)	2983.44	1985.65	1300.10	1896.06
Saudi Arabia	(Riyal)	5.6347	3.7502	2.4554	3.5810
Senegal	(CFA Fr)	775.780	516.330	338.067	493.034
Seychelles	(Rupee)	7.5351	5.0150	3.2836	4.7887
Sierra Leone	(Leone)	1262.10	840.000	549.990	802.101
Singapore	($)	2.1076	1.4027	0.9184	1.3394
Slovakia	(Koruna)	46.3358	30.8390	20.1918	29.4476
Slovenia	(Tolar)	206.519	137.450	89.9954	131.249
Solomon Is	($)	5.3149	3.5373	2.3161	3.3777
Somali Rep	(Shilling)	3936.56	2620.00	1715.45	2501.79
South Africa	(Rand)	6.5997	4.3925	2.8760	4.1943
Spain	(Peseta)	191.629	127.540	83.5068	121.786
Spanish Ports in N Africa	(Sp Peseta)	191.629	127.540	83.5068	121.786
Sri Lanka	(Rupee)	82.3145	54.7850	35.8705	52.3132
Sudan Rep	(Dinar)	151.001	100.500	65.8024	95.9656
Surinam	(Guilder)	616.025	410.000	268.449	391.502
Swaziland	(Lilangeni)	6.5997	4.3925	2.8760	4.1943
Sweden	(Krona)	10.2627	6.8304	4.4722	6.5222
Switzerland	(Fr)	1.8676	1.2430	0.8139	1.1869
Syria	(£)	63.0299	41.9500	27.4668	40.0573
Taiwan	($)	40.8139	27.1640	17.7858	25.9384
Tanzania	(Shilling)	803.838	535.000	350.291	510.862
Thailand	(Baht)	37.9807	25.2850	16.5423	24.1251
Togo Rep	(CFA Fr)	775.780	516.330	338.067	493.034
Tonga Is	(Pa'anga)	1.8858	1.2550	0.8217	1.1984
Trinidad/Tobago	($)	8.6394	5.7500	3.7648	5.4906
Tunisia	(Dinar)	1.4733	0.9806	0.6420	0.9363
Turkey	(Lira)	114415.5	76150.0	49859.2	72714.3
Turks & Caicos	(US $)	1.5025	1	0.6548	0.9549
Tuvalu	(Australian $)	1.8858	1.2550	0.8217	1.1984
Uganda	(New Shilling)	1522.03	1013.00	663.262	967.295
Ukraine	(Karbovanets)	276760.7	184200.0	120606.0	175889.2
U A E	(Dirham)	5.5186	3.6730	2.4049	3.5073
United Kingdom	(£)	1	0.6656	0.4358	0.6355
United States	(US $)	1.5025	1	0.6548	0.9549
Uruguay	(Peso Uruguayo)	11.4641	7.6300	4.9958	7.2858
Vanuatu	(Vatu)	166.567	110.860	72.5856	105.856
Vatican	(Lira)	2349.53	1563.75	1023.87	1493.20
Venezuela	(Bolivar)(Z)	700.739v	466.380	305.362	445.338
Vietnam	(Dong)	16547.0	11013.0	7210.76	10516.1
Virgin Is-British	(US $)	1.5025	1	0.6548	0.9549
Virgin Is-US	(US $)	1.5025	1	0.6548	0.9549
Western Samoa	(Tala)	3.6772	2.4474	1.6024	2.3370
Yemen (Rep of)	(Rial)	210.350r	140.000	91.6650	133.684
Yugoslavia	(New Dinar)	7.5916	5.0526	3.3082	4.8246
Zaire Rep	(Zaire)	37917.1	25236.0	16523.3	24097.4
Zambia	(Kwacha)	1855.53	1235.00	808.617	1179.28
Zimbabwe	($)	14.7362	9.8078	6.4217	9.3653

Special Drawing Rights May 2, 1996 Utd Kingdom £0.965093 Utd States $1.44571 Germany DM2.21816 Japan Y152.233 European Currency Unit Rates May 3, 1996 Utd Kingdom £0.830824 Utd States $1.24808 Germany DM1.90819 Japan Y130.552

Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Angolan Readjusted Kwanza devalued on 4/3/96. (Z) Two tier rate replaced by floating Venezuelan Bolivar 22/4/96.
Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.
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Friday, May 3, 1996

هكذا في الأصل

Egypt to sell first majority stake in public company

By James Whittington in Cairo

The Egyptian government yesterday announced a landmark decision to sell the first majority stake in a public sector company to private investors through the Cairo stock exchange.

The decision was taken in response to heavy demand from foreign and local investors for an initial public offering in Nasr City Housing and Construction, the real estate company.

The offer, which opened on Sunday, was initially slated to sell 20 per cent of the company's share capital, with 10 per cent going to employees and the rest allocated according to demand from retail and institutional investors.

This was in line with the partial privatisation technique adopted by the government for the 17 other companies sold through the stock exchange since its potentially large programme of divestiture began in 1994.

The government will now sell 70 per cent of the company's equity, or 2.8m shares, to the public, and 5 per cent, or 200,000 shares, to employees. Each share is priced at E£65 and the offer will raise E£182m ($53.7m). Brokers in Cairo said the decision was a breakthrough. They, along with the International Monetary Fund and the World Bank, have been urging the government to sell majority stakes for the past 18 months.

Since Mr Kamel al-Ganzouri, the prime minister, took office at the beginning of this year, the government has promised to speed up Egypt's structural reforms, especially privatisation.

"This is the opening of a new era for Egypt's privatisation programme. We can now expect to see a lot more public companies passing into private ownership," said Mr Mohamed Taymour, chairman of Egyptian Financial Group, the local merchant bank, which is co-*managing the offer. He said* that despite the increase in the number of shares, the offer was expected to be covered more than two times by the close of trade today.

Nasr City has benefited over the past two years from a sharp rise in real estate prices.

Net profits for the year to June 1995 were E£36.53m on revenues of E£85m. It has a large asset base, consisting of land and buildings, valued at more than E£1.2bn.

Deregulation sparks Nordic merger frenzy

Sweden's generators jostle for pole position in the industry, reports **Greg McIvor**

The restructuring of the Nordic region's power industry has turned into a shark's *feeding frenzy. Leading* domestic and foreign operators have taken bites out of each other in the struggle to enhance market position.

Few could have anticipated the speed of rationalisation when Sweden on January 1 followed Norway and Finland in liberalising its power industry, creating the world's biggest deregulated electricity market.

Analysts expected the consolidation would focus on Sweden's 250 or so distributors. Instead, the most frenetic activity has been focused on the country's generators. In the past month, sizeable holdings in several companies have changed hands at feverish pace. But some observers have raised doubts over the industrial merit of some deals.

"The ownership structure in *Swedish power companies is in* chaos. It is impossible to say what will finally emerge," says Dr Karl-Axel Edin, president of Tentum energy consultants in Stockholm. Like others, he has been surprised by the pace of change.

While big state-owned producers such as Sweden's Vattenfall, Imatran Voima (IVO) of Finland and Norway's Statkraft, have been manoeuvring to strengthen their grip on the Nordic sector – seeing it as a springboard for future expansion into Baltic and mid-European markets – medium-sized *operators have been scrambling* to guarantee their survival.

Eight Swedish generators control 93 per cent of the domestic market, but only Vattenfall, with a 50 per cent market share, is seen as big enough to be assured of remaining a long-term independent player.

Many utilities are locally-based, and their stand-alone prospects will depend heavily on their ability to grow sufficiently to develop at least a national presence.

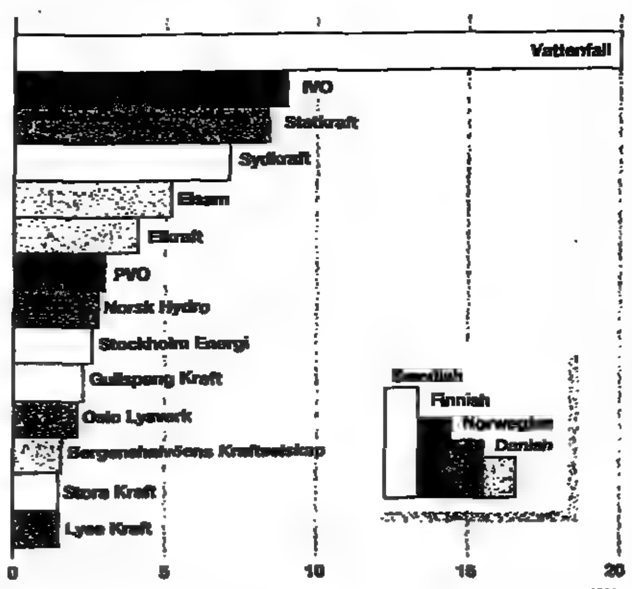
The prospect of substantial economies of scale for generators, on top of rising electricity prices – partly because last winter was unusually cold – is feeding the thirst for acquisitions and strategic alliances.

"The bigger and more effi*cient companies eat the* smaller ones. That is one reason why we want to be bigger and bigger," says Mr Jari Jaakkola, vice-president in charge of investor relations at IVO.

Last month, the Finnish company took a 51 per cent interest in Gullspangs Kraft, the regional Swedish energy utility, and announced an alliance with Stockholm Energi, Sweden's third-largest generator.

Gullspangs Kraft has also

Nordic market's largest suppliers



Source: Svenska Dagbladet

been the subject of interest from Preussen Elektra of Germany, which purchased a 12 per cent holding. Sweden's sixth-biggest power supplier, Graninge, has also bought a 14 per cent stake, and last week bought Jäfäa Energi, a regional power distributor, for SKr666m ($98m).

But Graninge, whose move into Gullspangs Kraft was motivated by a desire to collaborate with IVO, has in turn *found* itself targeted. Its share price has jumped almost 20 per cent in the past month after Electricité de France, the French *state* power utility, directly and indirectly secured a 54 per cent interest in the company after a battle for control with Sydkraft, Sweden's second-largest power generator. In addition, Preussen Elektra has bought a 12.4 per cent stake.

Amid the feverish mood currently pervading the sector, analysts have questioned the wisdom of some transactions. IVO's move into Sweden is seen as a logical step and a direct response to Vattenfall's entry into Finland last year. However, question marks have been raised over EdF's involvement in Graninge, given the absence of a clear industrial link between the two companies. The French group has outlined few specific plans for Graninge. It has said it sees the holding as a way of gaining experience of the unregulated power market.

Mr Per Axelsson, utilities specialist at Cap Gemini consultants in Stockholm, said Sweden and the Nordic countries were becoming a laboratory for continental power generators *en route* to future wider European deregulation. This would mirror the liberalisation of the Swedish telecommunications sector over the past five years, which spurred rapid foreign investment.

With EdF and Preussen Elektra already active in Scandinavian power companies, observers predict the sector will soon attract wider European interest. Named among possible entrants is Yorkshire Electricity, the UK generator, which attempted to purchase a 20 per cent stake in Stockholm Energi in 1994 – a deal that foundered because of political opposition in Sweden.

A suitable opportunity may arise through Incentive, the Wallenberg investment company, which has stated its intention to relinquish ownership of *Skandinaviska* Elverk, another Swedish energy producer.

The deal, estimated to be worth between SKr2.5bn and SKr3.5bn, is expected to inter*est a host of competitors,* among them IVO, Sydkraft, EdF and Graninge.

Vattenfall has also expressed a desire to strengthen its balance sheet to fund expansion in the Baltic region. That would be most easily achieved by privatising a tranche of the state's 100 per cent holding, but the Social Democratic government has made clear that Vattenfall is not currently for sale.

Girded by a 50 per cent Swedish market share, Vattenfall is unaccustomed to being challenged on its domestic patch. Nevertheless, it has felt obliged to respond to IVO's incursion into Gullspangs Kraft. It purchased a 13 per cent stake for close to SKr1.3bn – a riposte that underlined the determination of the biggest company not to be outrun in the restructuring race.

INTERNATIONAL CAPITAL MARKETS

CME considers change to S&P future

The Chicago Mercantile Exchange is thinking about tinkering with its star index derivative product. Laurie Marsh explains why it is disappointed with volume growth and looks at the possible pitfalls of change

Has the stock market rally of 1996 left the benchmark Standard & Poors 500 index futures too big to trade? That's a question the Chicago Mercantile Exchange has been wrestling with for the past month as it considers the future of its S&P 500 index derivatives contracts.

Long the wholesale market for money managers who need to make quick, cheap and efficient adjustments in their equity portfolios, Chicago's S&P 500 futures and options contracts are among the most actively traded and successful derivatives in the world.

Customers use index futures to buy or sell shares synthetically of all 500 companies in the high-cap index almost instantly – a feat that could take precious minutes or even hours in the cash market.

Never a place for amateurs, the value of a single S&P 500 futures contract has risen from about $62,000 when the pit opened in 1982, to about $325,000, as the underlying cash index tops 650.

Furthermore, this year's stock market volatility has boosted the average daily price swing per contract to about $4,000 – *twice last year's levels*. In comparison, a single US Treasury bond futures contract has an average daily price swing of about $1,000.

Over has doubled since 1987.

During the period, the NYSE *has seen a succession of stock* splits, which has cut its average share price, increasing trading appeal to retail customers.

Stock index futures customers have always been big institutional players accustomed to the costs and risks associated with the market, so why is the CME thinking about tinkering with its star product now?

For one thing, the exchange is uneasy that volume in its futures pit has not expanded in tandem with the New York Stock Exchange, where turnover has doubled since 1987.

In the futures pit, the reverse has happened. As the S&P 500 index value appreciates, larger amounts of capital are needed to support a derivatives trade, and more and more customers are being flushed out of the game.

Traders maintain that over the long run this has diminished the efficiency of the pit, leaving pricing less competitive and increasing the amount of time it takes for an order to be filled.

The high value of the contract has discouraged business in other ways. Institutional traders who use futures as protection against price swings in the cash market say a bigger contract becomes a less precise hedging instrument and leaves them exposed to broader daily price swings and greater risk.

Although S&P 500 futures volume continues to grow moderately each year, the gains are disappointing to the CME, where income is linked to turnover, and where new growth is desperately needed to offset its languishing foreign currency futures business.

A simple remedy, exchange *officials say, is to halve the* value of its index futures contract. The CME's S&P 500 contract value is now determined by multiplying the value of the underlying cash index by 500. Changing that multiplier to 250 should translate into twice as many contracts at half the value.

However, dividing the multiplier could result in some angry customers. Halving the contract value may or may not *increase the liquidity in the* pit, but it certainly will double the amount of money owed in brokerage, clearing, and exchange fees for the same dollar amount traded, customers say.

"What it comes down to," says Mr William Byers, Managing Director for Bear Stearns, "is whether an unknown increase in liquidity will offset a known increase in transaction costs."

"There is no question that the pit is not functioning as efficiently as it should, but I am not sure cutting the contract size will solve the problems," said another analyst.

For now, the exchange is *soliciting comment from customers* on a potential contract split and seem poised for quick action.

However, executives note that other options are available, from taking no action, to creating a "mini" S&P 500 futures contract that would appeal to retail investors and would trade independently of the existing market.

Treasuries stage recovery after sell-off last week

By Lisa Bransten in New York and Samer Iskandar in London

US Treasury prices yesterday posted a modest rebound after last week's sharp sell-off but the yield on the benchmark 30-year Treasury remained above 7 per cent.

Near midday, the benchmark 30-year Treasury was up $\frac{5}{32}$ at $86\frac{11}{32}$ to yield 7.071 per cent and the two-year note was $\frac{1}{32}$ higher at $99\frac{3}{32}$, yielding 6.146 per cent. The June Treasury bond future was ¼ stronger at $107\frac{1}{32}$.

Mr Kevin Sluder, a senior fixed-income trader at First Chicago Securities, said some investors appeared attracted *by the higher yields that have* resulted from last week's sell-off. "I think things got a little bit out of hand on Friday, so we bounced back a little from those levels," he said.

But trading was expected to remain choppy and volumes light ahead of the new supply set to come on to the market today and tomorrow as the Treasury department sells three-year and 10-year debt as part of its quarterly refunding operations. Today, it will auction $19bn of three-year notes and tomorrow it plans to sell $14bn in 10-year notes.

Also important this week will be Friday's figures on the Producer Price Index, which should offer the market some guidance about the prospects for an emergence of inflationary pressures later this year.

■ Most European markets benefited from the strength in US Treasuries, ending the day higher after opening below last week's levels.

GOVERNMENT BONDS

■ French government bonds had a positive session. Matif's *June notional future gained* 0.14 to close at 122.76, its highest level of the day, with support from the strength of the currency on the foreign exchange market. In the cash market, 10-year French yields ended at around 3 basis points below those of German bunds.

Analysts believe this situation could last, because the government appears increasingly determined to tackle public deficits. One trader in Paris said that "if market participants continue to believe in the convergence scenario, French bonds are more attractive than bunds, because yields [in both markets] will tend to move closer, whereas the franc will still have room to appreciate against the D-Mark".

■ German bonds also ended higher after trading down on bearish economic data showing a fall in the German unemployment rate. However, the June bund future, listed on the DTB in Frankfurt, closed at 95.80, up 0.10, helped by a firmer US Treasury market.

Economists at BIP/Dresdner Bank in Paris believe the German market will focus on social negotiations that started yesterday and will end today.

■ Italian BTPs also gained some ground. The June future on 10-year BTPs, traded in Milan, settled 0.09 higher at 113.94. In the cash market, the 10-year yield spread of BTPs over bunds narrowed by 5 basis points to 336 points.

■ Spanish bonos closed higher, after a weak start, in line with other markets. The June future on 10-year bonos settled at 98.23, up 0.33. Traders are now likely to focus on spending cuts that the new government is to announce on Friday.

New World Infrastructure plans convertible

By Louise Lucas in Hong Kong

New World Infrastructure (NWI), the infrastructure arm spun off from New World Development last October, is considering a US$250m five-year convertible bond issue to fund existing and potential projects.

The company, which recently announced a 51.45 per cent rise in net profits from HK$227.25m to HK$344.18m for 1995, has secured a rating for the mooted bonds from the two main credit rating agencies.

Standard & Poor's has rated the bonds BBB-, with a positive outlook, and Moody's Investors Service has indicated it would rate the bonds Ba1.

NWI said it had increased its stake in China's Northern Ring Road through the purchase of an additional 20.64 per cent indirect equity interest for Yn406m.

Once the deal goes through, NWI's interest in the project will rise from 40 per cent to 60.64 per cent. The company is also negotiating with other joint venture partners in the Wuhan Bridge Development project to increase its interest from 48.86 per cent to 68.86 per cent, at a price yet to be negotiated.

NWI is expected to have a 70 per cent equity interest in the three Guangzhou bridges involved, and a 50 per cent interest in the profits of the project.

The cost is estimated at Yn2.2bn and the bridges are scheduled to be up and running between 1997 and 1998.

Beyond these projects, NWI is scouting around for other opportunities and is negotiating on a number of power and road projects, as well as mulling over certain port projects.

NWI has applied to list the putative bonds on the Luxembourg Stock Exchange. Pricing has not yet been determined, but it is estimated that the bonds will convert into shares representing 12.5 per cent of the existing issued share capital of the company.

New World Development has previously looked to overseas markets to list paper: in 1993 it launched a US$200m Dublin listed China investment fund, which embraced a number of China infrastructure and property projects and was effectively a precursor of NWI.

This latest fund-raising, which was first hinted at in the NWI listing prospectus, follows the spin-off in October last year which raised some HK$1.8bn.

First Euro-CP for Chinese agency

By Samer Iskandar

The China International Trust and Investment Corporation (Citic) has announced the creation of a $100m euro-commercial paper programme, the first such financial arrangement by a Chinese governmental agency.

The deal was signed yesterday in Beijing, said SBC Warburg, which has been chosen as the arranger and dealer in the securities to be issued under the programme. Citibank is the issuing and paying agent.

The programme has been established as a multi-currency facility, and the maturity of all securities thus issued will be limited to a maximum of one year.

Citic is a state-owned corporation and operates under the direct leadership of China's State Council.

The proceeds from the euro-commercial paper programme will be earmarked to finance the working capital needs of Citic.

Pakistan telecoms sale suffers further delay

By Farhan Bokhari in Islamabad

The privatisation of Pakistan Telecommunications Corporation (PTCL), the monopoly telephone company, may again be delayed until October.

The Pakistani government said a postponement was being considered because of competition from three other telecoms companies due to be offered on the international markets this year.

The plan had been to offer the company by mid-summer, but a firm decision is now due to be taken on May 20, when the government's privatisation commission submits its recommendations for PTCL to the federal cabinet in Islamabad.

The government wants to sell 26 per cent of PTCL and transfer its management to a private investor. The move to delay PTCL's privatisation again has followed earlier setbacks in its privatisation plan.

The company was to be offered for sale by December last year, but concerns then over a lukewarm response from potential investors forced the government to delay the sale for three months.

The latest delay, the second since December, would almost certainly dampen investor confidence, some businessmen said yesterday.

Ms Benazir Bhutto, the Prime Minister, said in Islamabad last week: "I think that in privatising PTCL we have to consider what other events are taking place in the global marketplace," adding that the company's privatisation plans had coincided with the planned sale of three other large telecom companies in different parts of the world.

"The Privatisation Commission is having second thoughts about going to the market at the same time as three other major telecommunications privatisations in the belief that if the market were flooded with such offers then the response would not be adequate."

Pakistan has been urged by Western donors and international financial institutions to privatise its public sector companies so it can use the money raised to pay off debt.

It is not yet clear to what extent a further delay over the PTCL issue will affect the country's overall privatisation efforts.

COMMODITIES PRICES

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	124.50	-0.45	125.40	124.30	1,114	7,936
Jun	123.40	-0.80	123.70	123.30	298	3,193
Jul	121.20	-0.90	122.40	121.30	8,004	26,173
Aug	119.80	-0.70	119.80	119.80	1	740
Sep	118.20	-0.70	119.10	118.10	526	4,734
Oct	116.75	-0.80	117.35	117.35	55	481
Total					8,676	83,680

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	394.1	+1.6	-	-	-	-
Jun	395.7	+1.6	396.0	394.2	33,002	95,305
Aug	398.2	+1.6	398.7	397.0	2,916	21,722
Oct	400.6	+1.7	400.6	400.2	55	5,518
Dec	403.4	+1.7	403.8	402.1	1,893	26,517
Feb	406.0	+1.6	405.6	405.6	25	5,158
Total					38,029	202,004

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	408.5	+0.9	409.0	407.6	1,843	20,092
Oct	411.5	+1.0	411.5	411.0	84	3,452
Jan	414.3	+1.0	-	-	2	911
Apr	417.0	+1.0	-	-	2	1,318
Total					1,927	25,773

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	136.95	+0.00	137.00	135.50	670	4,648
Sep	135.15	+0.90	137.50	137.25	187	2,616
Dec	138.25	+0.90	138.00	136.75	134	440
Total					991	7,709

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

May	544.5	+2.1	546.5	540.5	184	439
Jun	546.8	+2.0	543.0	538.0	3	5
Jul	549.0	+2.0	551.5	545.5	22,388	86,444
Sep	554.1	+2.0	556.5	552.0	382	13,811
Dec	561.7	+2.0	564.0	559.0	134	9,484
Mar	568.6	+2.0	570.0	570.0	4	3,563
Total					23,274	98,989

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	20.55	-0.32	21.18	20.51	33,483	95,221
Jul	20.00	-0.12	20.46	19.90	16,815	72,643
Aug	19.34	-0.07	19.65	19.28	5,555	52,537
Sep	18.87	-0.06	19.16	18.83	2,104	36,220
Oct	18.65	-0.09	18.69	18.60	335	24,342
Nov	18.60	-0.06	18.72	18.50	2,635	16,321
Total					75,110	405,695

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	54.40	-0.34	55.10	54.10	10,131	24,553
Jul	52.40	-0.30	53.70	52.10	3,899	16,237
Aug	51.95	-0.25	52.90	51.60	2,023	14,042
Sep	52.20	-0.20	53.10	52.20	676	7,216
Oct	52.90	-0.05	53.70	52.90	74	4,131
Nov	53.40	-0.10	54.05	53.40	313	4,140
Total					17,782	95,743

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.137	+0.006	2.155	2.130	15,577	29,305
Jul	2.155	+0.018	2.165	2.155	5,985	20,811
Aug	2.145	+0.005	2.180	2.130	4,145	16,396
Sep	2.120	-0.003	2.130	2.115	2,183	15,179
Oct	2.120	-0.010	2.136	2.120	1,007	11,802
Nov	2.175	-0.006	2.190	2.170	430	7,894
Total					32,095	144,945

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	68.90	-1.02	71.60	68.50	12,580	32,250
Jul	65.00	-0.36	66.85	64.75	4,075	18,035
Aug	61.40	-0.26	62.60	61.30	2,336	12,981
Sep	58.40	-0.16	59.16	58.40	665	3,714
Oct	52.00	-3.46	56.40	56.40	75	1,319
Nov	54.25	+0.64	54.30	54.25	82	1,022
Total					19,759	71,413

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears. Volume & Open Interest totals are for all traded months

GRAINS AND OIL SEEDS

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	627.00	+4.5	633.50	616.00	398	1,032
Jul	561.50	-8.5	572.00	551.00	18,768	61,616
Sep	555.00	-3.6	569.00	549.00	2,293	16,045
Dec	563.00	-6.5	579.00	556.00	3,112	17,923
Mar	565.75	-1.25	570.00	552.00	60	1,394
May	505.00	-	520.00	505.00	20	140
Total					25,445	96,795

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	472.50	+1.5	479.50	462.50	4,482	11,941
Jul	454.75	+1.75	464.00	446.00	39,967	168,578
Sep	379.50	+8.75	381.50	372.00	8,380	58,595
Dec	339.00	+6.75	343.25	335.00	17,872	137,373
Mar	344.50	+6	347.00	339.00	853	15,329
May	348.50	+6.5	348.50	344.50	185	1,896
Total					77,128	394,873

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	805.50	-3	816.00	800.00	2,083	7,708
Jul	812.00	-4.5	830.75	806.50	26,534	80,767
Aug	811.75	-1.75	825.00	806.00	1,248	11,114
Sep	788.00	-6	800.00	785.50	275	6,095
Nov	776.50	-3	789.50	773.50	11,414	71,802
Jan	782.00	-1	794.00	780.00	229	6,894
Total					45,903	181,862

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	27.49	+0.01	27.85	27.30	3,909	3,895
Jul	27.90	+0.07	28.18	27.61	12,086	58,259
Aug	28.10	+0.11	28.34	27.90	1,085	10,547
Sep	28.23	+0.09	28.45	28.00	280	4,405
Oct	28.35	+0.1	28.55	28.10	709	3,270
Dec	28.82	+0.08	28.90	28.33	2,433	17,454
Total					22,276	97,879

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	248.6	-0.5	249.8	245.0	1,360	4,474
Jul	250.4	-0.8	255.0	248.6	8,070	52,853
Aug	248.5	-1	253.6	248.0	865	11,574
Sep	246.7	-	249.0	245.0	519	7,289
Oct	241.7	+0.1	244.0	241.5	101	3,300
Dec	241.2	-0.2	244.0	240.6	1,282	15,606
Total					14,666	98,095

SOFTS

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1385	+9	1385	1383	6	200
Jul	1390	+7	1400	1373	2,414	31,894
Sep	1402	+8	1410	1387	512	18,101
Dec	1414	+10	1418	1398	125	17,480
Mar	1424	+11	1411	1411	75	13,981
May	1443	+11	1435	1435	2	4,935
Total					3,129	95,989

■ COCOA (ICCO) (SDR's/tonne)

May 2	Price	Prev. day
Daily	1038.86	1038.71

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	128.20	-2.05	127.00	125.50	69	864
Jul	125.20	-2.35	127.00	124.70	3,363	20,064
Sep	124.45	-2.45	126.20	124.00	870	5,127
Dec	122.90	-1.85	124.40	122.60	69	2,841
Mar	122.05	-2.45	123.60	122.00	96	882
May	121.50	-2.10	121.50	121.50	86	309
Total					4,393	29,836

■ COFFEE (ICO) (US cents/pound)

May 2	Price	Prev. day
Comp. daily	111.97	111.89
15 day average	109.13	108.72

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	10.59	+0.09	10.62	10.51	6,327	58,299
Oct	10.57	+0.06	10.58	10.50	1,705	34,584
Mar	10.58	+0.04	10.59	10.51	713	24,843
May	10.54	+0.07	10.55	10.46	379	6,203
Jul	10.49	+0.12	10.52	10.41	90	3,308
Oct	10.36	+0.12	10.30	10.27	280	1,205
Total					9,329	128,908

■ COTTON NYCE (50,000lbs; cents/lbs)

May	85.10	+0.25	85.15	84.90	16	85
Jul	86.97	+0.03	87.10	86.30	3,171	24,855
Oct	85.55	-0.06	86.00	85.30	254	3,670
Dec	84.13	+0.18	84.40	83.90	2,808	27,924
Mar	84.75	+0.75	85.15	84.75	150	3,110
May	85.35	+0.05	85.40	85.25	28	1,413
Total					6,844	69,482

Softs continued

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	128.85	+0.65	129.60	127.50	169	381
Jul	129.90	+0.80	130.50	128.80	4,476	13,153
Sep	129.45	+0.70	129.75	128.60	523	3,307
Nov	125.20	+1.20	125.10	124.80	99	1,011
Jan	123.25	+0.80	123.60	122.50	66	3,188
Mar	125.25	+0.50	124.70	124.70	33	255
Total					5,365	21,448

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Jun	60.800	+0.100	61.250	60.300	11,311	32,013
Aug	61.600	-0.325	62.300	61.400	4,808	24,984
Oct	63.225	-0.400	63.750	63.150	2,822	18,059
Dec	61.425	-0.100	61.825	61.325	2,314	9,823
Feb	61.650	-0.475	62.200	61.500	1,765	8,894
Apr	64.775	-0.175	65.050	64.750	257	1,844
Total						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jun	60.200	+0.500	61.500	60.000	2,811	17,045
Jul	58.525	+0.650	59.050	58.175	1,682	8,003
Aug	54.525	+0.650	54.975	53.950	625	5,424
Oct	49.825	+0.600	50.075	49.250	505	4,807
Dec	53.075	+0.425	53.600	52.700	605	4,493
Feb	73.600	+0.875	74.500	73.350	39	765
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	88.250	-2.000	92.000	88.350	797	2,401
Jul	85.650	-2.000	88.950	85.650	1,464	5,616
Aug	82.550	-2.000	86.100	82.550	387	2,274
Feb	80.025	-1.875	82.100	81.050	133	492
Mar	82.100	-0.250	82.100	82.100	10	29
May	84.000	-0.250	85.850	84.250	14	49
Total						

Yorkshire head aims to clear muddied water

By Jane Martinson and Patrick Harverson

Mr Brandon Gough, the new chairman of Yorkshire Water, has launched a strategic review of the group's non-core operations. He arrived last week at the utility, which endured a public relations nightmare last year over its management of water supplies during the UK's long summer drought.

He said management would be "open-minded" about making changes to its non-core businesses and exploring ways to improve overall efficiency.

He hopes to reveal some of the findings of the review – which will look at businesses including Yorkshire Environmental Services, various overseas ventures and its property interests – at the group's annual meeting in July.

"The objective of the review is primarily to ensure some clarity of purpose for Yorkshire Water and to make sure that whatever we do is done in a logical framework," he said.

The 58-year-old Mr Gough, former chairman of accountants Coopers & Lybrand, has arrived at Yorkshire at a difficult time for the company.

A report on its handling of last year's water shortage crisis, for which it has already been criticised, is to be published on May 17. Soon after, Ofwat, the industry regulator, is to produce a separate report on the company's compliance with environmental regulation.

Mr Gough said he realised that the year ahead could be a challenging one. "It is going to take us a while to earn back the trust of the customers. They had a bit of a shock last year," he said. "The company had a run of bad luck with the water supply situation. Quite honestly, everybody's very anxious to make sure we don't have a repetition."

Mr Kevin Bond, the new chief executive, last week announced a £70m emergency package to combat water shortages and extended a hosepipe ban to Yorkshire's 4.5m customers. He also announced a separate review of the core utility.

With a new non-executive chairman, chief executive and finance director, the board "as a whole is very ambitious to wipe the slate clean," said Mr Gough. "It's very difficult to run a business well if your customers are not onside."

Because Yorkshire is in a closed period before the publication of its results, he would not be drawn on whether that efficiency would include a share buy-back or special dividend next month. Part of his "mission" would be to find out what customers wanted.

Whatever the criticisms, he believed the private sector was best able to manage the problems of water supply. An additional £170m to secure the water supply announced last November would not have been possible if the company had still been in public hands.

Loyalty engenders just desserts

Christopher Brown-Humes on Sainsbury's fight to regain top slot

For a company used to supremacy in the UK supermarket sector, J Sainsbury will have the highly sobering experience of reporting its first fall in underlying profits for 22 years when it presents full-year figures on Wednesday.

The performance will not surprise the market, which has been forecasting pre-tax profits of £760m-£765m, after £809m in 1994-95, since the group issued a profit warning in January. But it will raise anew the question of what has gone awry and how the group is going to fight its way back to pre-eminence.

Evidence that Sainsbury has lost its way is contained in figures showing it achieved lower like-for-like sales growth than its rivals and has lost market share. Figures from AGB, the market consultants, showed Sainsbury's share of the British grocery market slipped from 21.7 per cent to 21.3 per cent during last year, while Tesco surged from 20.7 per cent to 22.4 per cent and both Asda and Argyll's Safeway recorded gains.

Part of the problem is that the group has not effectively countered the high-profile marketing initiatives of its rivals.

Most glaringly, it has been caught off-guard by the loyalty card successes of Tesco and Safeway, and has so far failed to launch a variant of its own. But its competitors also seem to have gained a reputation for innovation and dynamism that Sainsbury lacks. Tesco and Safeway have both flaunted customer service initiatives, whether it be cutting check-out queues or introducing self-scanning and crèches. The result is that Sainsbury has been losing some of its core family shoppers.

The perception of group management has not assisted the Sainsbury cause. It comes with a reputation for cultural resistance to change and even arrogance based on past success. It is also accused of underestimating the extent to which Tesco, Asda and Safeway have repositioned themselves to step up their competitive challenge.

"The Sainsbury board has always found it very difficult to acknowledge their own weaknesses," says Mr Paul Smiddy, food analyst with Credit Lyonnais Laing.

The clearest sign of investor disillusion is that Sainsbury shares have underperformed the market by 29 per cent during the past year.

But there is an argument that the group is a victim of its own success. In terms of sales per square foot, for instance, it still achieves more than £20, compared with Tesco's £18.36. Its operating profit margin is believed to have been maintained at 8.1 per cent in the second half of the year, against 5.73 per cent at Tesco.

It also has highly effective delivery systems, and an executive of a rival company concedes: "It's still the best brand in the business."

The group is moving to address its problems. Management was reshuffled in January, although many felt the move misfired because Mr Dino Adriano, who will play a central role in the fightback, is not due to take over as head of the UK supermarkets business until late next year.

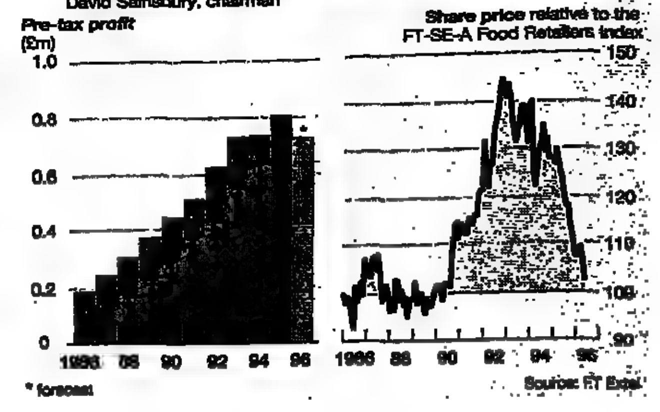
The group has also launched a series of price promotion campaigns since January which it says has helped it regain some market share.

But analysts say unequivocally that more needs to be done. They maintain that Sainsbury will eventually have to launch its own loyalty card, albeit with a different concept to current variants. This will a top priority for Mr Kevin McCarten, the new marketing supremo.

Specifics may not be forthcoming on Wednesday, but the city will be disappointed if it does not get at least some clues as to the way the company intends to meet the competitive challenges it faces.

J Sainsbury

David Sainsbury, chairman



BET battle prompts Panel review call

By Geoff Dyer

The Takeover Panel is under pressure to launch a formal review of the rules surrounding exempt marketmakers as a result of the Rentokil-BET battle.

A number of institutional investors have complained to the Panel that the rules are open to abuse by marketmakers connected to one of the parties in a bid.

The controversy was prompted after the Panel turned down a complaint 10 days ago by BET's advisers that SBC Warburg, one of Rentokil's brokers, had breached the Takeover Code.

BET, acquired by rival business services group Rentokil last week for £2.1bn, had complained about the sale of 3.8 per cent of its shares on April 23 by the marketmaking arm of SBC Warburg.

Salomon Brothers bought the 27m shares and sold 24m almost simultaneously through ABN Amro Hoare Govett, another Rentokil broker, to an associate company of the bidder.

BET argued that this broke Rule 38 of the code, which forbids a marketmaker connected with the target or bidder from making any dealings which might help its client's cause.

The Panel rejected BET's request that the shares be blocked from counting towards acceptances of the Rentokil offer. However, one industry analyst described the share trading as "only just within the code".

City experts say that there are about 10 marketmakers which often run extremely large positions in a target company during a takeover battle. "In those circumstances you have to be very careful that those positions are not being run for the benefit of one of the parties," said one expert.

Scholl appoints key marketing man

By David Blackwell

Scholl, the UK foot and healthcare products group that last October fought off an attempt by rebel shareholders to replace three non-executive directors, is expected to appoint a marketing director today.

He is Mr Trevor Bell, who has spent the last year as marketing director at Facia, the retail group assembled by entrepreneur Mr Stephen Hinchliffe from some of the UK's best-known brand names. Mr Bell's brief is to take firm control of Scholl's brand worldwide, including responsibility for all new product development.

His appointment is one of the final stages of the strategic review initiated 18 months ago when the board decided that the strength and direction of the brand had become somewhat dissipated.

One of his first tasks will be to appoint an international marketing head for footwear, and another for footcare. He will also be key to driving forward the relaunch of the brand, which is under way.

Operating profits for 1995 were 23 per cent ahead at £18.2m (£14.8m) on a 10 per cent increase in sales to £207.2m. Mr Colin Brown, who took over as chief executive last September, said the outcome showed measures put in place to restructure the business were bearing fruit.

Mr Bell said he had completed his task of setting up a marketing structure at Facia, and his position would not be refilled. He had been attracted to Scholl by the international nature of its business – about three-quarters is overseas.

BA in franchise agreement with Sun-Air

By Peter Pearse

British Airways is extending its franchise operations beyond the UK via an agreement with Sun-Air, the Danish regional airline.

Financial terms or fees were not disclosed, although BA said turnover of the franchise business had grown from zero to £50m "in little more than two years". The Sun-Air agreement is BA's seventh such arrangement; they are designed to facilitate inter-airline connections, reservations, and sales and marketing.

Sun-Air operates 250 flights a week in Scandinavia, mainly out of Copenhagen, Oslo and Stockholm. In 1995 it carried 120,000 scheduled passengers.

Under the agreement Sun-Air's 12 aircraft will be repainted in British Airways Express colours and will carry BA flight numbers.

Sheffield Forgemasters £70m capital overhaul

By Tim Burt

Sheffield Forgemasters, the company which gained notoriety for supplying steel tubes for Iraq's supergun, is raising £70m to overhaul its share structure ahead of a possible stock market flotation.

The privately-owned forgings and castings manufacturer has arranged a secondary buy-out led by NatWest Ventures, enabling backers of the original 1988 buy-out to realise their investment.

It has also recruited Mr Stuart Wallis, former chief executive of Fisons, as its non-executive chairman.

NatWest has invested £7.5m to provide an exit for Causeway Development Capital, one of the company's original backers, and has paid £3.5m for about half of the shares held by managers and employees. The reorganisation will leave NatWest with a 29 per cent stake.

Ruling backs transsexual

The dismissal of a transsexual for reasons related to a sex change was contrary to the principle of equal treatment for men and women enshrined in European law, the European Court of Justice ruled last week.

The case arose out of proceedings brought in an Industrial Tribunal by P, a transsexual, against S and Cornwall County Council, her former employers.

In April 1992, P informed S of the intention to undergo a sex change, and this began with a "life test" – a period during which P dressed and behaved as a woman.

This was followed by surgery to give P the physical attributes of a woman. In September 1992, after undergoing minor surgical operations, P was given three months' notice. The final surgical operation was performed before the dismissal took effect, but after P had been given notice.

P argued before the industrial tribunal that she had been a victim of sex discrimination, but S and Cornwall County Council maintained that the reason for the dismissal was that P had been made redundant. Having ruled the true reason for the dismissal was P's proposed gender reassignment, the industrial tribunal found that such a situation was not covered by the UK's Sex Discrimination Act 1975.

However the tribunal was uncertain whether that situation fell within the scope of the European directive on the implementation of the principle of equal treatment for men and women as regards access to employment, vocational training and promotion, and working conditions.

The industrial tribunal therefore referred to the European Court the question as to whether the equal treatment directive precluded dismissal of a transsexual for a reason related to his or her gender reassignment.

The UK government and the European Commission both submitted that such a dismissal did not constitute sex discrimination for the purposes of the directive. The UK pointed out in particular that it appeared that the employer would also have dismissed P if she had previously been a woman and had undergone an operation to become a man.

Having referred to the jurisprudence of the European Court of Human Rights in this field, the court observed that the principle of equal treatment contained in the directive meant that there should be "no discrimination whatsoever on grounds of sex".

The directive was therefore simply the expression, in the relevant field, of the principle of equality, which was one of the fundamental principles of European law.

The court cited previous cases in which it had repeatedly held that the right not to be discriminated against on grounds of sex was one of the fundamental human rights the observance of which the court had a duty to ensure. Accordingly the scope of the directive could not be confined simply to discrimination based on the fact that a person is of one or other sex; it also applied to discrimination arising from the gender reassignment of the person concerned.

The court held that such discrimination was based essentially, if not exclusively, on the sex of the person concerned. Where a person was dismissed on the ground that he or she intended to undergo, or had undergone, gender reassignment, he or she had been treated unfavourably by comparison with persons of the sex to which he or she was deemed to belong before undergoing the relevant procedures.

To tolerate such discrimination would be tantamount to a failure to respect the dignity and freedom to which he or she was entitled, and which the court had a duty to safeguard. Dismissal of such a person was therefore contrary to the directive unless the dismissal could be justified.

There was no suggestion that there were grounds for such a justification, and the court therefore replied to the industrial tribunal that in view of the objective pursued by the equal treatment directive, it precluded dismissal of a transsexual for a reason related to gender reassignment.

C-13/94: P v S and Cornwall County Council, ECJ FC, April 30 1996.

BRICK COURT CHAMBERS, BRUSSELS

Plans unlikely to bite

EU takeover proposals will have little effect on UK practice, says Robert Rice

The European Commission has abandoned its original proposal for a detailed takeover bid directive in favour of a new measure based on general principles. The move comes after 10 years of trying to persuade member states of the benefits of harmonised rules for reducing takeovers in the European Union.

Opposition in the UK to the old 13th Company Law Directive, published in 1985, centred on its perceived threat to self-regulation of the City and the UK's non-statutory way of doing things.

The new proposal lifts that threat by simply outlining principles and objectives which each member state's takeover rules must comply with. The general principles are:

- Equal treatment of all holders of securities in the target company who are in the same position;
- Those to whom the bid is addressed must be given enough time and information to make a decision;
- The target's board must act in the interests of the company as a whole with particular regard for shareholder's interests;
- The creation of false markets in securities must be avoided; and
- A bid must not hinder the conduct of a target's business for longer than reasonable.

By leaving the detail of implementation to national legislatures Brussels hopes to win sufficient support to get the directive adopted by the end of the year.

In the UK, however, concern has already been expressed to the Department of Trade and Industry, which is consulting on the proposal, that the directive might create legal uncertainty where none has previously existed and in particular that it may encourage the use of nuisance litigation in order to frustrate bids.

The Financial Law Panel, set up by the Bank of England three years ago to look at legal uncertainties, was asked by the House of Lords' sub-committee on the European Communities to look at the issue, and to consider if such a directive is appropriate under the principle of subsidiarity.

The panel's general conclusion is that the directive will have little practical effect on the conduct of takeovers in the UK. The proposed directive emphasises aspects consistent with existing UK practice, it notes.

It deals succinctly with subsidiarity. The fragmentation of Europe's financial markets meant until recently that it was legitimate to regard takeovers as domestic matters, says the panel. However, the commercial background has changed.

The ability to trade on an exchange in one country from an office in another, and the freedom

accorded companies to operate across the EU by the single market mean it is now misleading to think of the EU as having individual securities markets.

The panel believes that what must be addressed is whether matters are better dealt with at EU level as part of the move to create a more consistent and open market – not whether they can be dealt with at the local level.

The issue of legal uncertainty is less straightforward. The concern is that the principles established by the Appeal Court in the 1987 Datafin case – relating to the role of the courts in takeover proceedings and the limited circumstances in which the UK courts will intervene – may be abandoned or reinterpreted if the takeover directive is incorporated into UK law.

In particular, the concern is that litigation will be encouraged and takeovers delayed or in effect blocked by the intervention of the High Court and the European Court of Justice. The evidence for this fear is that other countries with statutory regimes such as the US and Australia have experienced the problem of tactical litigation.

The panel points out, however, that neither the US nor Australian experience is relevant to the UK. Using litigation as a tactic is rare in the UK.

There is also an argument for saying that if tactical litigation were likely to become a feature of the UK takeover scene then it would already have done so.

A look at the history of the UK courts' involvement in takeover battles also leads the panel to believe there is little room for the directive to impact on the UK regime.

Concern has been expressed that once the Takeover Panel becomes a statutory body it will become more prone to judicial review, just like any other statutory body, and the courts will be forced to abandon its hands-off approach. But the Financial Law Panel sees no reason why this should happen.

The Takeover Panel's decisions can already be reviewed in will be in appropriate cases, it says. And while the status of the Takeover Panel may change, its functions will not. The courts are reluctant to interfere and have shown they appreciate the need for speed and certainty of decisions. The courts would need very good reasons for abandoning that approach and there do not appear to be any, it says.

That is particularly true in respect of references of points of law raised by the directive to the European Court for a preliminary ruling, which would become a theoretical possibility once the directive had been incorporated into national law.

Preliminary references can take up to two years and if they were invoked during a takeover battle they could in effect kill any chance of a bid succeeding. Their potential to be used as a tactical defence by a target company is therefore considerable.

However, the European Court has made clear that national courts enjoy wide discretion in deciding whether to make a reference. In addition, English courts have laid down guidelines which suggest that unless the point of law in issue is very difficult and important, English judges should decide it themselves. A presumption therefore exists against referring which is unlikely to change with such a broad-brush measure.

There is also case law precedent to the effect that English courts will not make preliminary references if questions are raised in order to obstruct or delay an almost inevitable adverse judgment.

Delay is clearly a factor that courts can take into consideration when deciding whether to make a reference. A look at past cases shows that in the domestic context they have always regarded delay as highly relevant in takeover litigation.

In the 1990 battle between Plessey and General Electric Co, the court refused Plessey an injunction to prevent GEC making a bid. The court said an injunction would have prevented GEC complying with the Takeover Panel's rules and timetables, and would have prevented GEC from making any bid at all. The Scottish courts adopted a similar approach in 1986 during the takeover battle for Distillers.

"This is a good indication of the approach of the courts to proceedings that, whatever their merits, would have the effect of being determinative of an issue merely by being allowed to proceed," the panel says.

The message from the panel is that while the directive will increase the potential threat of frustrating litigation, the UK courts are unlikely to allow that threat to materialise.

On that basis the panel sees no reason why the UK should not embrace the new directive as a useful addition to harmonising corporate activity within the EU.

LEGAL BRIEFS

New link for City firm with Jakarta lawyers

Herbert Smith, the City law firm, has entered into a co-operation agreement with the Jakarta law firm, Prof Dr Mariam Darus Badrulzaram & Partners.

The firms are to co-operate in providing legal support in Indonesia to both international investors and to financial institutions and corporate clients. The arrangement, which will become a formal association in due course, will result in Stefan Ricketts, a Herbert Smith lawyer, being based as a consultant in Prof Darus' Jakarta office.

Prof Darus is one of Indonesia's leading commercial and banking law firms and the move enables Herbert Smith to expand its business in Asia.

The London firm opened an office in Singapore last year which is now staffed by seven lawyers and has a representative office in Shanghai.

Mr Edward Walker-Arnott, Herbert Smith's senior partner said: "Indonesia has one of the fastest-growing economies in the world and offers unrivalled opportunities for international lawyers in capital markets, projects and privatisations."

Group expands

Dewey Ballantine, the US law firm, is increasing the size of its London office to expand its international capital markets and project finance practices.

The move, which will be achieved by hiring additional English solicitors and adding US lawyers to its London staff, signals the end of its relationship with City firm Theodore Goddard.

The two firms will however continue to co-operate in those areas where the experience and abilities of both will benefit their clients. The firms' central European joint venture is not affected by the change.

هدية من الأهرام

INTERNATIONAL PEOPLE

New chairman at Aker Group

The uproar at Aker, the Norwegian offshore engineering and cement group, caused by the departure last month of both chairman and chief executive, has been at least partly resolved by the election of Björn Rune Gjelsten as the new chairman.

As representative of Resource Group International, the biggest shareholder, Gjelsten succeeds Gerhard Heiberg, the prominent businessman who quit suddenly on April 19, just two days after forcing the resignation of Tom Ruud as chief executive in a row over Aker's strategy.

RGI, one of the world's biggest fishing industry powerhouses, is controlled by Kjell Inge Rökke, a young Norwegian entrepreneur who made his fortune in the fishing industry in Seattle in partnership with Gjelsten.

Rökke also retains a place on the Aker board. He and Gjelsten were supporting Heiberg's pressure on Ruud to expand more aggressively in the offshore engineering business – but other Norwegian institutional shareholders were more cautious and objected to the removal of Ruud. Now it seems RGI has asserted its authority as largest shareholder.

But, just to compound the issue, Ruud is also a member of the new board because of his position as chairman of Scancem, Aker's big cement interest. His departure as chief executive appears not to be in doubt; the next step will be to appoint a new one. *Hugh Carnegy*

Senior changes at JP Morgan

JP Morgan has announced senior changes in its European operations, following the appointment of Didier Cherpitel (pictured), currently head of its Paris office, as head of its private banking group in Europe.

Cherpitel, who will be based in London, will co-ordinate the bank's coverage of private banking clients in Europe as well as being a member of the European management committee, JP Morgan's most senior policy-making group in Europe.

Cherpitel will be succeeded by Jacques Aigrain, a managing director in JP Morgan's London-based European advisory group. He takes up the position next month, but will continue to lead the bank's pharmaceutical and healthcare practice in Europe in addition to his role as head of the Paris office.

JP Morgan has built up an enviable reputation as an advisor to pharmaceuticals companies and recently advised Ciba Geigy on its merger with Sandoz.

To strengthen further its expertise in this sector, JP Morgan is moving Stephen Schaible from New York to London to become head of the chemical and pharmaceutical advisory team. He takes up the position in June and will report to Klaus Diederichs and Rod Peacock, co-heads of the bank's European advisory group. *Antonia Sharpe*

Wright move at Jefferson Smurfit

Jefferson Smurfit's decision to promote Paddy Wright to president and chief operating officer shows the Irish paper and packaging group has heeded institutional shareholders' requests to appoint more non-family members to top posts.

The 55-year old Dubliner, previously chief executive of the group's Ireland and UK operations, is taking up a post that has been vacant since the departure of Howard Kilroy almost exactly a year ago. Since then shareholders have looked to Michael Smurfit, the chairman and chief executive, to share more of the responsibility for running the group and to adopt a board structure more in line with the Cadbury committee's recommendations on corporate governance.

Wright will take on the day-to-day task of managing Smurfit's four divisions. Alongside Ray Curran, finance director, he will act as a counterpoint to the strategy-oriented role played by Smurfit.

Paddy Wright says Smurfit's main challenge is to manage the transition of an industry that is moving from an emphasis on quality to an emphasis on cost-cutting and consolidation. In this respect, he will play an important role in pursuing acquisitions in the industry, particularly in Europe. Wright, a former president of the Confederation of Irish Industry, joined Smurfit in 1976. *Patrick Harverson*

ON THE MOVE

■ *Catherine Walter, who is a director of the National Australia Bank, joins the board of* the AUSTRALIAN STOCK EXCHANGE. *Gerard Bradley*, former under treasurer of Queensland Treasury, also joins the exchange, working on strategic issues.

■ Glenn Hazard is appointed president and chief operating officer of FTP SOFTWARE, the US supplier of Internet software. Hazard was previously senior vice president and chief information officer at Legent Corporation.

■ Rolf Eckrodt, formerly president of Mercedes-Benz do Brasil, joins the executive board of ABB DAIMLER-BENZ TRANSPORTATION (Adtranz), the rail systems joint venture founded with ABB, as deputy chief executive officer. He relaces Axel Gattung who resigned in March. Ben van Schaik, chairman of the board of management of the Netherlands aircraft manufacturer Fokker, succeeds Eckrodt.

■ Claus Hendricks, a board member at Thyssen Stahl, together with Hansgeorg Hofmann, (Dresdner Bank board member), Klaus-Juergen Schmieder, a deputy board member at Hoechst, and Hubert Lienhard, a board member at ABB Mannheim, have all been appointed to the supervisory board of SGL CARBON. Leaving are Klaus Dietz, management chairman at Hoechst Veterinaer; Hellmut Fischmeister of the Max Planck Institute; Justus Mische, board member at Hoechst; and Christoph von Schwarzkoppen from the legal department at Hoechst.

■ Eric Resnick, 39, becomes director of business and product development at DATASTREAM, the global financial information group. He was previously general manager, North America.

■ Jean-Pierre Aubert, former chairman of Union Europeenne de CIC, is appointed chairman *of BNP's subsidiary* BANQUE DE LA CITE. He replaces Jean-Pierre Dreyer.

■ Ryokichi Kunugi replaces *Shugo Matsuo as president of* SONY MUSIC ENTERTAINMENT (Japan); Matsuo becomes chairman.

■ *Robert Gemmell is appointed* as president and chief executive of *SALOMON BROTHERS* CANADA.

■ Robert Korthals and Poul Hansen join the board of SUNCOR, one of Western Canada's two oilsands producers. Korthals was previously president of Toronto Dominion Bank; Hansen is chairman and general manager of Sperling Hansen Associates.

■ William Zuendt, president of Wells Fargo, becomes the Federal Bank of San Francisco's appointee to the FEDERAL ADVISORY COUNCIL in Washington DC. He succeeds William Siart and Edward Carson of First Interstate Bancorporation.

■ Patrick Gavin, 47, becomes chief executive officer of AERO INTERNATIONAL (Regional), a joint venture between Aerospatiale of France, British Aerospace and Alenia of Italy. He succeeds Henri-Paul Puel, 55, who was responsible for establishing it; Puel assumes new responsibilities within Aerospatiale.

■ Richard Bohnet becomes president and chief executive of WEITEK, the US software company. He replaces David Gellatly, who resumes his role as an independent member of the board. Bohnet was most recently president and chief executive of Acumen International.

■ Minoru Murofushi, president of Itochu Corp, has been appointed to the Asia-Pacific Economic Cooperation (APEC) forum's new business advisory council; also joining APEC are Nobuo Tateisi, chairman of Omron Corp and Kenzo Nakagawa, president of Showa Plastics.

■ Stefano Granati has been appointed general manager of Italian toll road operator AUTOSTRADE.

■ Alec Brennan becomes an executive director of CSR. He is the executive general manager responsible for finance and for CSR's investments in bauxite, alumina, aluminium and cement.

■ John Morschel, an executive director of Westpac Banking Corporation, joins the board of CSR.

■ John Riley has been elected chairman of the board of COOPER INDUSTRIES, replacing Robert Cizik, who has retired. Riley continues as president *and chief executive officer.*

■ Bernard Larrouturou is the *new president of* INRIA (the French National Institute for Computer Science and Control. He takes over from Alain Bensoussan, now president of the French space agency (CNES). Larrouturou was director of CERMICS, an educational and research establishment.

■ Jorma Vaajoki has been appointed the new president and chief executive of Finnish forestry group METSA-SERLA OY. He will replace Timo Poranen who has been appointed senior executive vice president *of Metsa-Serla's parent Metsaliitto* Yhtyma.

■ *Piergiorgio Doninni* has been appointed head of institutional equity trading at YORKTON SECURITIES, a Canadian investment dealer.

■ John Shoemaker has been appointed by SUN MICROSYSTEMS as vice president and general manager, enterprise servers and storage group. Mel Friedman has been appointed vice president, worldwide operations.

■ Dun & Bradstreet has appointed two members to its senior management team – William Dwyer, president and principal executive officer of Moody's Investors Service, and Frank Noonan, president and principle executive officer of The Reuben H. Donnelley Corporation.

■ COGNIZANT CORPORATION, the largest of the three publicly traded companies arising from the break-up of Dun & Bradstreet, has appointed three executive vice presidents – William Jacobi, Dennis Sisco, and Victoria Fash, the last serving as the company's chief financial officer.

■ James Egan, 47, becomes senior vice president and chief financial officer at RIVERWOOD INTERNATIONAL. He joins from Coopers & Lybrand, where he was a partner and board member.

■ Paul Rioux has been appointed president of UNIVERSAL MEDIA GROUP. Bob Biniaz has been promoted from chief operating officer to chairman, Universal Interactive Studios, part of the Universal New Media Group.

■ Bob Every, currently managing director of Tubemakers of Australia, now part of BHP, joins BHP as group general manager and chief operating officer, international division, BHP Steel.

■ Lance Coburn, currently group general manager and *chief operating officer* international division, BHP Steel, has been *appointed to group* general manager and senior vice *president* finance, BHP Minerals.

■ *Peter Grey*, a senior public servant in the Department of Foreign Affairs and Trade, has been appointed by Australia's federal government the country's first ambassador for the *ASIA-PACIFIC ECONOMIC* CO-OPERATION forum, the regional grouping.

■ Edward Quinn becomes president of the MCGRAW-HILL Companies' Broadcasting Group, replacing Edward Reilly, who has left the company.

■ EDS has announced its board of *directors to follow* its separation from General Motors: James Baker, secretary of state in the Bush administration; Dick Cheney, defence secretary in the Bush administration; Ray Groves, former chairman and chief executive of Ernst and Young; Ray Hunt, chairman and chief executive of Hunt Oil; Robert Kidder, chairman and chief executive of Borden; Franklin Raines, vice-chairman of Fannie Mae; Judith Rodin, president of Pennsylvania University; Enrique Sosa, executive vice-president of Amoco; Lester Alberthal, chairman, president and chief executive of EDS; and EDS senior vice presidents Gary Fernandes and Jeff Heller.

■ Steven West, president of Electronic Data Systems' (EDS) Infotainment business units, has been appointed to the board of CISCO SYSTEMS, the global supplier of internet working solutions for corporate intranets and the global Internet.

■ Leonard Forman, 50, has been named by THE NEW YORK TIMES Company as senior vice president responsible for corporate development, new ventures and electronic businesses. He has worked as a media consultant after serving as president and chief executive of a Nynex/Newsday joint venture.

■ C J Silas becomes chairman of the board of COMSAT, the US satellite operator, succeeding Melvin Laird, who retires in May. Silas retired from Phillips Petroleum Corporation in 1994 as chairman and chief executive. In 1996, he became chairman of Ascent Entertainment Group.

■ Remy Kremer, who has been on the board since April 1979, has been appointed chairman of the LUXEMBOURG STOCK EXCHANGE, taking over from Edmond Israel. Kremer retired *from the Banque Générale du* Luxembourg in 1994.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 6 / Sch)

BELGIUM/LUXEMBOURG (May 6 / Frs.)

CZECH REP (May 6 / Koruna)

DENMARK (May 6 / Kr)

FINLAND (May 6 / Mka)

FRANCE (May 6 / Frs.)

GERMANY (May 6 / Dm.)

GREECE (May 6 / Drachma)

ITALY (May 6 / Lire)

NETHERLANDS (May 6 / Fls.)

NORWAY (May 6 / Kroner)

POLAND (May 6 / Zloty)

PORTUGAL (May 6 / Escudo)

SPAIN (May 6 / Pta.)

SWEDEN (May 6 / Kronor)

SWITZERLAND (May 6 / Frs.)

TURKEY (May 6 / TL Lira)

PACIFIC

JAPAN (May 2 / Yen)

AUSTRALIA (May 6 / Aus$)

HONG KONG (May 6 / H.K.$)

INDONESIA (May 6 / Rupiah)

MALAYSIA (May 6 / MYR)

NEW ZEALAND (May 6 / NZ $)

SINGAPORE (May 6 / S$)

SOUTH KOREA (May 6 / Won)

TAIWAN (May 6 / TW $)

THAILAND (May 3 / Baht)

AFRICA

SOUTH AFRICA (May 3 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 6 / Can $) 4 pm close

MONTREAL (May 6 / Can $) 4 pm close

INDICES

	May 6	May 3	May 2	1996 High		1996 Low	
Argentina							
General(29/12/77)	(c)	17223.38	17470.67	[illegible]	31/1	[illegible]	19/3
Australia							
All Ordinaries(1/1/80)	2297.2	2299.0	2323.0	2326.00	25/4	2187.40	11/3
All Mining(1/1/80)	1097.6	1099.1	1108.1	1108.10	2/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	379.81	380.78	384.88	387.24	25/4	352.78	2/1
Traded Index(2/1/91)	1100.70	1107.82	1122.31	1131.21	26/4	975.27	2/1
Belgium							
BEL20(1/1/91)	1713.11	1710.02	1731.86	1768.71	7/3	[illegible]	2/1
Brazil							
Bovespa(29/12/83)	(c)	51015.0	51480.0	[illegible]	3/2	43001.60	2/1
Canada							
Metals Minls♦(1975)	(u)	5316.32	5471.97	5548.64	18/4	4387.47	16/1
Composite♦(1975)	(u)	5124.50	5117.20	5132.40	29/4	4739.70	15/1
Portfolio§§(4/1/83)	(u)	2480.34	2472.55	2491.25	29/4	2327.36	13/1
Chile							
IGPA Gen(31/12/80)	(c)	5547.28	5304.70	[illegible]	8/1	5215.30	8/4
Denmark							
CopenhagenSE(3/1/83)	398.43	(c)	400.08	400.08	2/5	365.40	2/1
Finland							
HEX General(28/12/90)	1968.06	1968.34	1971.52	1998.66	6/6	1681.67	10/1
France							
SBF 250(31/12/90)	1427.29	1439.61	1452.30	1453.88	30/4	1258.36	2/1
CAC 40(31/12/87)	2090.42	2115.38	2136.80	2148.79	30/4	1887.85	11/1
Germany							
FAZ Aktien(31/12/58)	874.65	872.85	884.42	902.33	23/4	818.55	2/1
Commerzbank(1/12/53)	2517.00	2512.9	2548.7	2581.90	23/4	2370.28	2/1
DAX‡(30/12/87)	2468.91	2457.49	2502.31	2550.18	23/4	2284.88	2/1
Greece							
Athens SE(31/12/80)	912.78	913.13	927.11	1017.86	4/3	901.03	29/4
Hong Kong							
Hang Seng(31/7/64)	10897.54	10734.24	10929.90	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1978)	3712.87	3785.51	3945.48†	3980.87	24/4	[illegible]	25/1
Indonesia							
Jakarta Comp.(10/8/82)	599.67	608.12	622.86	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	(c)	2505.32	2525.45	2536.09	1/5	2234.61	2/1
Italy							
Banca Comm Ital(1972)	657.00	658.48	665.01	666.01	2/5	672.21	23/3
MIB General(2/1/96)	1114.00	1117.0	1129.0	1129.00	2/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	(c)	(c)	21592.38	22282.85	24/4	19734.70	13/3
Nikkei 300(1/10/82)	(c)	(c)	311.60	318.06	26/4	[illegible]	11/3
Japan							
Topix(4/1/68)	(c)	(c)	1685.80	1718.00	26/4	1526.12	13/3
2nd Section(4/1/68)	(c)	(c)	2243.28	2243.28	2/5	[illegible]	14/3
Malaysia							
KLSE Comp.(4/4/86)	1164.32	1176.49	1186.13	1188.64	30/4	999.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3146.00	3162.51	3294.48	19/4	2738.39	8/3
Netherland							
CBS TRtnGen(End 83)	616.4	612.4	614.8	616.40	6/5	558.58	2/1
CBS All Shr(End 83)	370.3	368.4	370.3	370.30	2/5	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2109.86	2139.92	2147.73	2202.09	4/1	2044.71	24/1
Norway							
Oslo SE(Ind)(2/1/83)	1416.37	1429.36	1433.62	1444.72	29/4	1260.88	30/1
Philippines							
Manila Comp(2/1/85)	(c)	2976.85	2994.0	[illegible]	16/4	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1850.15	1846.55	1842.57	1850.15	6/5	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	581.21	583.25	588.53	610.27	5/2	563.69	2/1
South Africa							
JSE Gold(28/9/78)	(c)	1953.7♥	1951.8	1993.30	3/5	1348.40	2/1
JSE Ind.(28/9/78)	(c)	8204.6♥	8307.5	8739.30	25/1	8008.40	2/1
South Korea							
KoreaCmpEx**(4/1/80)	974.13	965.67	961.52	985.83	29/4	838.87	13/3
Spain							
Madrid SE(30/12/85)	356.53	355.43	(c)	361.78	26/4	323.75	11/1
Sweden							
AffarsvarldenGen(1/2/37)	1959.8	1950.3	1953.4	1999.80	6/5	1706.68	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1731.00	1740.86	1757.25	1779.54	26/4	1516.19	17/1
SBC General(1/4/87)	1230.14	1234.76	1245.44	[illegible]	26/4	1114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	6065.37	6131.45	6081.71	6182.70	29/4	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	(c)	1318.59	1311.23	1415.04	6/2	1247.79	13/3
Turkey							
Istanbul Comp.(Jan 1986)	65523.0	66445.2	66978.7	72086.80	8/4	38779.30	2/1
WORLD							
MS Capital Int(1/1/70)	764.8*	768.3	772.5	779.40	29/4	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	(c)	1668.01	1681.27	1692.57	26/4	1594.40	11/1
Euro Top-100(26/6/90)	1437.14	1435.46	1448.06	1458.28	26/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	(u)	382.35	383.16	16/4	344.19	2/1
ING Brngs Emrg(7/1/92)	160.09	162.31	162.77	163.66	22/4	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
May	2093.0	2079.0	−23.0	2097.0	2077.0	11,070	31,857
Jun	2074.5	2058.5	−23.0	2075.0	2057.0	391	29,317
DAX							
Jun	2480.0	2475.0	−0.5	2477.5	2458.0	9,655	-
Sep	2481.0	2494.5	−0.5	2495.0	2481.0	60	-
OMX							
Apr	-	1518.00	-	-	-	-	-
May	-	1510.50	-	-	-	-	-
SOFFEX							
May	3595.0	3578.0	−28.5	3600.0	3576.0	4,277	20,714
Jul	3572.0	3559.0	−21.5	3572.0	3565.0	4	2,369

** Sat May 4 : Taiwan Weighted Price 6086.37; Korea Comp Ex 984.65. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 6 - 2473.52 -1.09.

US INDICES

Dow Jones	May 3	May 2	May 1	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5478.03	5498.27	5575.22	5689.74 (3/4)	5032.94 (10/1)	5689.74 (3/4/96)	41.22 (2/7/32)
Home Bonds	101.07	101.79	101.82	105.99 (14/2)	101.57 (3/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2179.69	2192.79	2208.35	2221.08 (18/4)	1882.71 (18/1)	2221.08 (18/4/96)	12.32 (8/7/32)
Utilities	208.66	207.60	208.65	234.98 (12/2)	205.58 (3/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5555.71 (5576.11) Low 5439.74 (5455.27) (Theoretical)♦
Day's high 5527.17 (5574.86) Low 5459.17 (5475.51) (Actual)♦

Standard and Poors	May 3	May 2	May 1	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	641.63	643.38	654.58	661.45 (12/2)	598.48 (10/1)	661.45 (12/2/96)	4.40 (1/6/32)
Industrials♥	764.42	768.04	777.84	777.84 (1/5)	702.07 (15/1)	777.84 (1/5/96)	3.62 (21/6/32)
Financial	63.27	63.60	65.46	68.56 (5/3)	58.07 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	345.40	346.21	351.53	351.92 (4/4)	321.41 (10/1)	351.92 (4/4/96)	4.46 (25/4/42)
Amex Mkt Val	590.69	590.97	593.78	593.78 (1/5)	529.05 (18/1)	593.78 (1/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1164.50	1178.33	1189.66	1189.66 (1/5)	988.57 (15/1)	1189.66 (1/5/96)	54.87 (31/10/72)

RATIOS

	Apr 26	Apr 19	Apr 12	Year ago
Dow Jones Ind. Div. Yield	2.17	2.17	2.17	2.55
	May 1	Apr 24	Apr 17	Year ago
S & P Ind. Div. yield	1.86	1.87	1.90	2.22
S & P Ind. P/E ratio	21.80	21.43	21.13	18.70

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Zenith	9,759,400	15⅝	+⅛
Fed Nat Mtg	5,883,300	29	−½
Ford Motor	5,628,900	35⅞	+⅛
Micron	5,253,400	38⅝	−⅛
AT&T	5,253,100	58⅝	...
Merck	4,401,500	58¾	−⅞
WMX Tech	4,149,000	35⅛	+⅜
WalMart	3,827,000	23⅝	−¼
Motorola	3,806,600	62⅝	+1⅜
Bay Ntwrk	3,625,000	32⅝	+⅝

TRADING ACTIVITY

● Volume (million)

	May 3	May 2	May 1
New York SE	425.818	441.051	402.303
Amex	31.662	32.690	34.880
NASDAQ	719.825	681.805	669.959
NYSE			
Issues Traded	3,110	3,143	3,142
Rises	1,074	530	1,312
Falls	1,172	1,993	[illegible]
Unchanged	864	620	807
New Highs	75	81	130
New Lows	17	31	9

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	642.50	643.55	+0.05	646.45	641.90	82,848	181,393
Sep	651.00	648.80	−0.10	651.40	648.80	1,308	9,084
	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225 (May 2)							
Jun	21770.0	21640.0	-	21800.0	21510.0	23,821	263,349
Sep	21830.0	21650.0	-	21830.0	21650.0	47	15,562

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Thursday, May 2, 1996

	Stocks Traded	Closing Prices	Change on day
Janome Sewing	11.2m	518	+75
Gun-Ei Chem Ind	11.0m	659	[illegible]
Sakai Heavy Ind	6.2m	1240	+200
Nippon Stl Corp	5.0m	369	-3
Hokuriku Elect	4.9m	511	+22
Toshiba Corp	4.6m	803	
NOK Corp	4.3m	1040	-10
Ichikoh Inds	3.9m	658	+21
NKK Corp	3.8m	328	-2
Tokyu Corp	3.4m	815	-15

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. ≠ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

CROSS RATES AND DERIVATIVES

FT GOLD MINES INDEX

UK INTEREST RATES

LONDON MONEY RATES

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on May 3, 5.8172pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1996. Agreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & III 7.38pc. Reference rate for period Mar 30, 1996 to Apr 30, 1996, Schemes IV & V 6.079pc. Finance House Base Rate 6.5pc from May 1, 1996

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls May	Calls Jun	Calls Jul	Puts May	Puts Jun	Puts Jul
1.480	2.39	2.73	3.12	0.06	0.50	0.88
1.490	1.48	2.07	2.51	0.16	0.73	1.23
1.500	0.73	1.47	1.98	0.31	1.12	1.65
1.510	0.26	1.00	1.49	0.84	1.65	2.18
1.520	0.04	0.64	1.10	1.62	2.28	2.74

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

BANK OF ENGLAND TREASURY BILL TENDER

	May 3	Apr 26		May 3	Apr 26
Bills on offer	£1000m	£1000m	Top accepted rate	5.8360%	5.7958%
Total of applications	£3143m	[illegible]	Ave. rate of discount	5.8172%	5.7902%
Total allocated	£1000m	£1000m	Average yield	5.9028%	5.8750%
Min. accepted bid	£98.545	£98.555	Offer at next tender	£1000m	£1000m
Allotment at min. level	7%	91%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday May 1, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	683,280,060	+60,312,157
Bankers deposits	1,914,137,503	+64,840,242
Reserve and other accounts	3,279,366,274	+36,604,264
	5,891,336,837	+161,756,643
Assets		
Government securities	1,217,930,775	-112,260,000
Advance and other accounts	2,327,585,868	+851,793,826
Premise, equipment and other secs	2,333,441,952	-588,620,403
Notes	12,209,018	+835,399
Coin	158,254	+7,619
	5,891,336,837	+151,756,643
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,147,790,982	+329,164,601
Notes in Banking Department	12,209,018	+835,399
	20,160,000,000	+330,000,000
Assets		
Other Government securities	13,833,836,826	-2,230,009,757
Other Securities	6,326,363,174	-2,560,009,757
	20,160,000,000	+330,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs.	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk.	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

UK GILTS PRICES

Other Fixed Interest

EMS EUROPEAN CURRENCY UNIT RATES

BENCHMARK GOVERNMENT BONDS

US

US INTEREST RATES

Spain

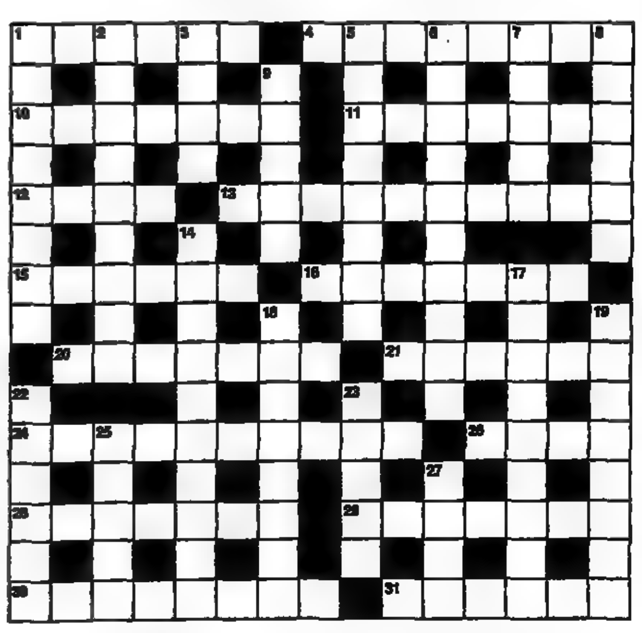
■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	97.70	98.22	+0.23	98.25	97.52	40,640	60,555

France

CROSSWORD

No.9,062 Set by HIGHLANDER



ACROSS

1 Order one to keep hose up (6)
4 Indicating period of time in middle of night (8)
10 Treading the boards and showing a leg (2,5)
11 Japanese play with cut of beef; Germans start eating (7)
12 Spy on navy vessel (4)
13 Average first-class standard completely beyond natural explanation (10)
15 Bring out legal point first (6)
16 Please include a Scottish valley (7)
20 It's used to translate academic works (7)
21 Cop needs a breathing space to be heard (6)
24 Such a change involving copyright would create heated argument (10)
26 Keen to work effectively in silver (4)
28 Originally genial, Merlin evolved into mischievous troublemaker (7)
29 Bad temper sets off a serious intestinal problem (7)
30 Track follows ear, nose and throat to the intestines (8)
31 Vegetable growth covers one-third of the earth, for example (6)

DOWN

1 Not allowed to go up but ran on the rocks (8)
2 Check about climbing skills and time control (9)
3 New beer put over in vigorous style (4)
5 Hurry up and clean out the top (8)
6 Final demands issued before time (4,6)
7 I'm afraid I omitted to include native way of speaking (5)
8 Carriage drawn by horse with artificial leg raises a laugh (6)
9 Plant is declared a tree (5)
14 Poor girl offended when speaking before everyone turned up (10)
17 Permanently fresh and always on the go (9)
18 Despatched to the crease by force and left as nightwatchman? (8)
19 Motionless insect covered by fluttering gnats (8)
22 Swing end of rod over fish (6)
23 More than one can sit comfortably in this express (5)
25 His last case could have been about explosive round found in river (5)
27 Aim for the net (4)

Solution to Saturday's prize puzzle on Saturday May 18.
Solution to yesterday's prize puzzle on Monday May 20.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Orion Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Equitable International Fund Managers Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mgrs Ltd

Lazard Fund Mgrs (Channel Islands) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada G/S Fd Mgrs Ltd

Royal Bk of Canada G/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)(**)

ANZ Magnet Co (Guernsey) Ltd

Lazard Fund Managers (CI) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

Bank of Ireland Asset Management Ltd

LGT Asset Management Ltd

Baring International Fd Mgrs (Ireland) Ltd

Global Asset Management

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Daiwa Europe Fund Mgrs Ireland Ltd

Dynamic Pacific Portfolio Fund Plc

Frank Russell Investments (Ireland) Ltd

Korea Growth Fund

Merrill Lynch Ireland Ltd

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mgrs

CMI Fund Managers (IoM)

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

Bank of Ireland Asset Mngmt (IOM) Ltd

Quilter Intl Mngt (IoM) Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Coutts & Co (Jersey) Fund Managers Ltd

TSB Fund Managers (CI) Ltd

JERSEY (REGULATED)(**)

Bank of Scotland Fund Managers (Jersey) Ltd

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

Mercury Asset Mngt Channel Islands Ltd.

Perpetual UT Mngrs (Jersey) Ltd

Schroder Mngt Services (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (a)

Barclays Diversified Portfolio (a)

Fidelity Funds - Contd.

Fleming Group (a)

Foreign & Colonial Emerging Markets Ltd (a)

Lloyds Bank Luxembourg

LUXEMBOURG (REGULATED)(**)

Asian International Umbrella Fund (a)

Alliance Capital

Sarasin Investment SICAV (a)

Credit Suisse Investment Funds

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Credis Investment Funds - Contd.

Morgan Stanley Sicav

Albany International Assurance Ltd - Contd.

Professional Investment Consultants

CA Securities Investment Fund Mangt Ltd

Global Asset Management - Contd.

The MC Oasis Fund LP

Regent Kingpin Capital Management Ltd

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.

(**) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority

Guernsey - Financial Services Commission

Ireland - Central Bank of Ireland

Isle of Man - Financial Supervision Commission

Jersey - Financial Services Department

Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.

Selling price - Bid or redemption price.

Buying price - Offer or issue price.

Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(♥) - 0001 to 1100 hours

(♦) - 1101 to 1400 hours

(▲) - 1401 to 1700 hours

(#) - 1701 to midnight

E - Exit charge on sale of units.

C - Manager's periodic charge deducted from capital.

H - Historic pricing F - Forward pricing

h - Distribution free of UK taxes.

p - Periodic premium insurance plans.

s - Single premium insurance.

σ - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).

x - Offered price includes all expenses except agent's commission.

z - Previous day's price.

§§ - Guernsey gross.

♦ - Yield before Jersey tax.

† - Ex-subdivision. xd - Ex-dividend.

‡ - Only available to charitable bodies.

◆ - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the Internet at www.FT.com

4 pm close May 6

NEW YORK STOCK EXCHANGE PRICES

1996 High	1996 Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅛	19⅛	AAR	0.48	2.3	22	214	20⅝	20¼	20⅝	+½
46⅛	38⅜	AMP x	1.00	2.3	21	3218	43	42⅜	42⅝	
94	68	AMR			22	5220	90½	88⅛	88¾	-1⅛
50½	37⅜	ASA	1.20	2.6	30	1206	46⅜	45¼	46¼	+1¼
44¾	38⅛	AbbotL	0.96	2.4	17	10702	40	39	39⅝	+¼
17¼	13⅜	Abitibi Pr	0.40	2.8	7	407	14¾	14½	14½	
35⅛	27	ABM Ind	0.70	2.0	18	30	34⅜	34⅛	34⅜	+¼
16	13⅞	Acpincelo			56	45	u16	15⅞	15⅞	+⅛
50⅜	37¾	ACE Ltd	0.56	1.3	10	160	43⅝	42¾	42¾	-1
9⅞	9⅛	ACM Gvt In	0.90	9.4	6	271	9¾	9⅝	9⅝	
7⅞	6¾	ACM GvOpp	0.57	8.4		172	6⅞	d6¾	6¾	-⅛
7¼	6¼	ACM Gvt Sp	0.66	10.4		395	6½	6⅜	6⅜	
9⅛	8¼	ACM Gvt Se	0.90	10.3		139	8¾	8⅝	8¾	
9½	8⅞	ACM Man	0.90	10.0		257	9⅛	9	9	-⅛
30¾	16½	AcmeClv x	0.52	1.7	7	39	30⅛	30	30⅛	+⅛
13⅞	6⅛	Acme Elect			54	148	10⅜	9¾	9⅞	-⅜
32½	27¾	Acordia	0.72	2.2	19	20	u32½	32¼	32½	+¼
21	12	Acuson			92	1770	u21	20⅜	20⅜	
19½	18⅜	Adams Expr	1.66	8.8	0	290	18⅞	18⅞	18⅞	
21¼	16⅛	AdvMic			8	6441	19¾	19¼	19⅜	-⅛
11⅛	8½	Advest Grp	0.16	1.5	7	159	10¼	10	10¼	+⅛
28⅛	9⅛	Advo Inc	0.10	0.9	61	530	11¼	10½	11⅛	+½
49½	41⅛	Aegon	1.33	2.5	15	70	49⅛	48⅞	49	+⅝
5⅛	3½	Aerflx			9	268	u5⅛	5	5⅛	+⅛
78¾	66⅛	AetnaL x	2.76	4.1	17	6814	68⅜	66¾	67¼	-½
33	28¾	Aflac	0.40	1.4	12	534	29¾	29¼	29½	+⅛
20⅜	17½	AGL Res	1.06	5.8	17	577	18⅝	18⅛	18⅜	-⅜
26¾	21¼	Ahmnsn	0.88	3.8	6	3587	23⅜	22⅝	22⅞	-¾
59¼	50⅜	AirPrC	1.04	1.8	15	1993	57¾	56⅞	56⅞	-⅜
28⅜	23½	Airbne Frt x	0.30	1.2	23	233	25¾	25⅛	25⅝	
22½	15½	Airgas Inc			35	278	20¾	20⅜	20¾	
18⅞	15	Airlease	2.00	12.6	10	93	16	15¾	15⅞	
33⅝	25⅝	AirTch			100	5771	30½	29⅜	30	+⅛
30¾	15⅞	Alaska Air	0.20	0.8	13	3585	25⅞	25⅝	25¾	+⅜
22¼	17¼	Albany Int	0.40	1.8	15	618	22⅛	22	22⅛	+¼
24⅛	17¼	Alberl	0.22	0.9	8	1038	u24⅛	23¾	24	+¼
43¾	32½	AlbCuB x	0.35	1.0	18	173	37¼	36⅞	37	-⅛
38⅞	29⅝	AlCulvr A x	0.36	1.1	16	242	34	33⅝	33⅝	-½
39⅜	31½	Albtsn	0.60	1.6	18	1846	37⅛	36⅛	36¼	-¼
34⅛	28⅜	AlcnAl	0.60	1.8	14	5188	33⅜	32⅝	33⅛	+⅞
58⅛	37⅜	AlcoSt	0.56	1.0	30	1067	56⅜	55⅞	56¼	-½
55⅜	39⅛	AlexBrown x	0.80	1.6	6	467	52¼	51	51½	-¼
20⅝	17⅞	AlexAl	0.10	0.5	24	593	19½	19	19⅛	-⅛
21	17⅜	Allegh Lud	0.52	2.5	13	4864	20½	20¼	20½	
30⅞	28	AllegP	1.68	5.8	16	732	29⅛	28⅞	29	
25¾	16⅛	Allen Con	0.20	0.8	23	1563	u25¾	24¾	25¾	+¾
39¼	30⅝	Allergan	0.48	1.4	31	1674	36¼	35¼	35¼	-⅞
25¾	21⅛	Allnce Cap	1.82	7.8	13	383	24⅛	23¾	23⅞	-⅛
12⅞	10	Allnce Gl	0.18	1.4		823	12½	12⅜	12½	
34⅝	29¾	Alld Irish	1.23	4.0	9	230	31	30¾	31	+¼
60⅜	47⅛	AldSig	0.90	1.6	18	4711	58¾	57⅛	58½	+¼
10⅞	9⅞	Allmer	0.84	8.8		41	10	d9⅞	9⅞	
46	37⅜	Allste	0.78	2.0	9	5335	38⅞	38¼	38⅝	-¼
36⅝	28¼	Allied Crp	1.04	3.3	16	1919	32	31¼	31½	-¼
5½	3⅞	Allwaste			72	498	4½	4⅜	4⅜	-⅛
27⅜	22	AlpharmaA	0.18	0.7	28	89	25¼	24¾	25	+⅛
39⅝	26⅝	Alumax			7	4150	35¼	34	35¼	+1⅛
66¼	49⅛	Alcoa x	0.90	1.4	14	18043	u66¼	63⅛	66	+3¼
34¾	24⅜	Alza Cp A			29	5891	27⅝	26⅝	26⅞	-½
6⅞	5½	AmGovInc x	0.72	13.1		1101	5⅝	d5½	5½	-⅛
13⅛	10¾	Am Precis	0.26	2.0	17	30	12⅞	12⅝	12⅞	
9⅝	5⅞	AmaxGd x	0.08	1.2	21	4693	6¾	6⅝	6¾	+¼
18⅞	16⅜	Amcast Ind	0.56	3.0	9	512	18¼	18¼	18⅝	+¼
59⅛	50¾	AmbacHs	0.60	1.1	15	2172	57⅛	56⅜	57⅛	+⅝
[illegible]										

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4 pm close May 6

NYSE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
Continued from previous page										
14½	9⅞	Schlr			3	2049	10⅞	10⅜	10⅝	-⅛
27⅞	18⅝	Schwab(C) x	0.16	0.7	22	2874	23¾	22⅝	22¾	-⅝
28⅞	22¾	SchwMaud			13	331	28¼	28	28¼	+⅛
19¾	13⅛	SciAtl	0.06	0.3	47	2843	18½	18⅛	18⅜	+⅛
19⅝	17	Scotsman	0.10	0.5	11	78	18½	19⅜	19½	
43½	38⅛	Scripps	0.52	1.2	25	424	42⅞	42½	42⅞	+⅛
18⅞	14½	ScudNAsF	0.02	0.1		104	15½	15¼	15⅜	-⅛
12½	11	ScuddNEuF	0.16	1.3		306	12¼	12	12⅛	
19⅛	16	SeaCnS	0.70	3.8	4	3	18⅜	18⅜	18⅜	
16	15⅛	SeaC1.4625	1.46	9.4		4	15⅝	15½	15⅝	
67¾	44¾	S'gate			22	7124	58¾	56¾	57⅜	-⅜
38⅝	31¾	Seagrm	0.60	1.8	22	2416	33	32½	32⅞	
24⅝	17⅛	Seagull En			15	1409	23½	23¼	23¼	-⅜
38⅛	26	Sealed Air			26	434	36½	35⅛	35½	-1
58¼	38¾	SearsR	0.92	1.8	14	10619	51¼	50	50¼	
22¼	19¼	SecCapStl x	1.24	5.9	21	1787	21⅛	20½	21⅛	+½
13	11⅞	Seligm Sel	0.84	6.7		147	12½	12⅜	12½	+⅛
23¾	13⅝	Sensormat x	0.22	1.1	78	7708	20½	19⅛	19⅝	-1
35¾	29½	SequaA	0.60	1.7	82	4	35½	35½	35½	
41⅝	38	SequaB	0.50	1.2	71	10	40½	40½	40½	
53½	36⅞	ServCp	0.48	0.9	28	4944	51⅝	50½	51¼	+¾
33½	29⅛	SvMstr	0.96	3.0	14	353	32⅞	31⅞	31⅞	
6	4½	ServMerch			9	1417	5	4¾	4⅞	
48¼	28½	SGSThm			10	2891	46⅛	44½	44⅞	-1¼
15⅛	10⅝	Shaw Ind	0.30	2.4	38	1297	12⅝	12⅜	12⅝	+¼
12⅞	10⅝	Shelby Wil x	0.28	2.3	14	17	12⅛	12	12⅛	+⅜
83½	76⅝	ShellTr	3.30	4.2	17	442	78⅝	78¼	78⅝	+¼
46⅞	38	SherW	0.70	1.5	18	1829	46½	45⅝	46⅛	+½
[illegible]										

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
[illegible]										
3⅞	3	Zapata	0.14	3.7	6	132	d3⅞	3¾	3¾	
23¼	5⅞	ZenithEl				1178291	u23¼	16⅝	22⅞	+7⅛
29⅛	21⅞	Zenith Nat x	1.00	3.9	36	401	26	25¾	25¾	-⅛
7⅛	6½	Zweig Inc	0.72	10.6		90	7	6⅞	6⅞	
20⅞	16¼	Zero	0.12	0.6	19	1305	u20½	18⅛	19⅞	+1½
23¼	19¼	Zurn Ind	0.40	2.0	15	609	20⅛	19¾	19¾	+⅛
11⅞	10¾	Zweig Fund	1.12	10.2		524	11¼	11	11	-⅛
9	8½	Zweig TotR	0.84	9.7		232	8¾	8⅝	8⅝	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. xd-sales. u-new yearly high. [illegible]

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AMEX PRICES

4 pm close May 6

[illegible]

NASDAQ NATIONAL MARKET

4 pm close May 6

[illegible]

AMERICA

Tech stocks mixed as Dow falls further

Wall Street

US share prices added to last week's declines in midsession trading yesterday, in spite of a modest rebound on the bond market, *writes Lisa Bransten in New York.*

Shares posted gains in the first 15 minutes of trading, with the Dow Jones Industrial Average rising more than 20 points, but by 9.45am they had reversed course.

By 1 pm the Dow was off 36.49 at 5,441.54, the Standard & Poor's 500 had fallen 3.37 to 638.26 and the American Stock Exchange composite had slipped 1.68 to 588.01. Volume on the New York Stock Exchange came to 217m shares.

Technology shares fell with the broader market, although some Internet companies managed to post gains. The Nasdaq composite lost 5.63 at 1,194.03 and the Pacific Stock Exchange technology index slipped 0.5 per cent, while the American Stock Exchange/Interactive Week Internet index added 0.3 per cent.

The bond market posted modest gains in quiet trading as recent lower prices proved attractive to some investors, but the yield on the benchmark 30-year Treasury bond remained above 7 per cent.

However, the outlook remained unclear on both markets, given the conflicting signs about the strength of the economy that has arisen from recent economic data. On Friday the market dropped as the Labor Department's April employment report showed little job creation but a slight gain in average hourly earnings.

There were no important economic data out yesterday, but tomorrow the Federal Reserve is to release its "Beige Book" summary of the state of the economy and on Friday the Commerce Department is to put out figures on the producer price index.

In individual shares, Apple Computer gained $1⅞ or 6 per cent at $25¼ on confirmation that it would license its Macintosh operating system to IBM, which dipped $1½ to $106⅝.

Varity, a maker of brake systems and diesel engines, added $⅝ at $43¾ after confirming that it was in discussions with the UK's Lucas Industries about a possible combination of businesses.

Shares in commercial banks continued the slide begun amid fears of higher interest rates. Chase Manhattan Bank lost $1¼ at $64⅞, Citicorp shed $1⅞ to $74⅞, Wells Fargo weakened $3¾ to $231⅛ and BankAmerica fell $1 to $70⅞.

Canada

Toronto remained in positive territory in busy midsession trade in spite of Wall Street's retreat, as the heavily weighted gold shares group rose by 2.2 per cent.

The TSE-300 composite index was 8.1 higher by noon at 5,132.60 in volume of 47.7m shares.

Nowsco Well Service rose C$2.65 to C$32 after it attracted a "white knight", Great Lakes Chemical, to stave off the attentions of BJ Services. On Sunday, the Indiana-based Great Lakes offered C$30.90 per share in a friendly deal, while BJ Services offered C$27 a share in cash and was rejected by Nowsco's board.

Among mostly higher gold issues, Black Swan Gold Mines advanced 14 cents to 79 cents but Bre-X Minerals dropped C$7.75 to C$198.35.

Rates rise warning

Growing prospects for a rise in short-term US interest rates in the third quarter of the year *could hurt Latin American* economies, Bear Stearns warned yesterday.

The firm said that although Latin American markets had shrugged off recent rises in long-term interest rates, they might not be able to resist US rate pressure for long.

"It is likely that the first upwards move in US short-term interest rates may have an even more dramatic effect on liquidity flows to emerging markets in general and to Latin American markets in particular than the recent increases in long-term rates," Bear Stearns added.

CARACAS rose 1.3 per cent *in midsession trade, spurred by* a sharp rise in the benchmark Electricidad de Caracas on hopes that the government might soon approve an increase in electricity rates. The Merinvest composite index rose 2.31 to 181.66 as EDC jumped 12.75 bolivars to 352.75 bolivars.

EDC announced on Friday that it had suspended its traditional April stock dividend because of financial difficulties arising mainly from the lack of government approval to increase rates.

Downbeat mood in S Africa

Johannesburg was broadly lower, depressed by a range of negative factors and sapped of normal volumes by the holiday in London.

Analysts commented that renewed weakness in the battered rand compounded worries about the fate of elections in troubled KwaZulu-Natal province.

The overall index fell 62.6 to 6,864.6, industrials lost 77.2 to 8,127.4 amd golds finished 28.6 weaker at 1,933.7.

The failure of Mr Thabo Mbeki, the deputy president, to unveil his policy initiative for growth and development, first mooted last November and expected in its final form last Friday, was said to have been another frustration. The Mbeki initiative was expected to have been mildly bullish for the market.

Blue chips were hard hit by the downbeat mood, with Anglo American dropping R8 to R278.00. Impala Platinum, a favourite among rand hedge investors in recent weeks, fell R3 to R76 and Iscor, the steelmaker also considered a solid hedge against rand weakness, eased 6 cents to R3.93.

Among the gold stocks, Driefontein retreated R1.50 to R66.50 and Western Deep Levels slipped R3 to R217.00.

EUROPE

Turnover slides, Paris pores over media reports

The absence of the London market hit activity. PARIS saw turnover slide to FFr2.9bn, but it pored over its media reports and received some individual action, as the CAC-40 index fell 24.96 or 1.2 per cent to 2,090.42 after the mid-morning downturn on Wall Street.

Moulinex dropped FFr8.70, a full 10 per cent, to FFr78.30 following a gloomy interview with its chairman Mr Pierre Blayau. At the same time broker Cheuvreux de Virieu remained "very negative", estimating that the current restructuring of the consumer durables group would cost between FFr500m and FFr1bn.

Eurotunnel started better, up 4.4 per cent after weekend reports of a draft debt agreement with its banks which would give them a 49 per cent stake in the group; however, the equity dilution involved took the shares back to close 5 centimes down at FFr5.65. Crédit Lyonnais took the opposite tack, falling to FFr166.10 on reports that the weekend fire which gutted its Paris headquarters would probably cost more than FFr1bn – then recovering to FFr172, off just 20 centimes, as its lead insurer said the bank had up to FFr1.6bn of fire cover.

Remy Cointreau rose FFr3.80 to FFr149.30 after the weekly, Journal des Finance, said the drinks group was looking at better prospects for 1996/97.

ZURICH saw profit-taking and weaker domestic bonds, and the SMI index lost 19.6 at 3,591.6. The fall came as Credit Suisse warned that the market was overheating after its record highs of late April.

Mr Josef Scherrer, the CS market strategist, had a 12-month SMI target of 3,700, but he foresaw consolidation in the next few weeks. Scope for further gains seemed to be largely exhausted with an estimated 1996 market p/e ratio of 17.2 and price/cashflow ratio of 10.5, he said.

Some market participants were still hoping for more mergers or divestments, but if these hopes were not fulfilled there could be heavy profit-taking. Mr Scherrer added that the positive liquidity effect caused by falling money market and bond yields would ease noticeably in coming months.

In pharmaceuticals, Ciba fell SFr15 to SFr1,370, and Sandoz SFr22 to SFr1,286 on the view that their merger plans were unlikely to escape unscathed from the EU's four-month anti-trust investigation.

Nestlé rose SFr19 to SFr1,417, still supported by last week's favourable first-quarter report.

AMSTERDAM notched another record closing high, the AEX index finishing 5.65 better at 559.82. Equities dipped early in the day, suggesting some vulnerability to levels on Wall Street, but strong fundamentals and a lack of sellers combined with a fresh cut in key Dutch money market rates to improve sentiment later in the day.

DSM, the chemicals group, got back on the upgrade after a slip on Friday, the shares closing Fl 3.70 higher at Fl 177.50. Dealers talked of buy recommendations for the stock, following last week's first-quarter figures. Financials were in demand, with ABN Amro up a net Fl 2.80 at Fl 91.20.

FRANKFURT saw the Dax index rise 1.09 to 2,473.52, but turnover fell from DM9.3bn to DM5.7bn. There were contrasts in chemicals: Henkel and Merck rose by DM6 to DM609 and DM1.05 to DM56.80, but Hoechst shed another DM6.50 at DM481.50.

Mr Andreas Schmidt at BZW in Frankfurt said that Henkel was still rising on the board's talk of addressing shareholder value, but that BZW was sceptical about this, since Henkel had apparently ruled out asset divestiture, saying that it was perfectly happy with its present structure. Merck, he said, was showing a technical recovery after last week's weakness on disappointing results; and Hoechst was still subject to profit-taking after a halcyon year in 1995.

STOCKHOLM rose as speculation mounted ahead of first-quarter figures due tomorrow from Ericsson and Scania. The Affärsvärlden general index put on 16.5 at 1966.8.

Ericsson gained SKr3 at SKr144, in line with a rise in New York on Friday. Scania was up SKr2.5 at SKr188.

Astra picked up SKr3 to SKr305, unperturbed by news that more executives may be suspended at its American subsidiary in connection with charges of sexual harassment which have already resulted in three suspensions.

Pharmacia & Upjohn, which said it planned to invest SKr700m in a new factory in Uppsala, north of the Swedish capital, slipped SKr2.5 to SKr258.

Trelleborg, the mining and engineering group, moved ahead SKr2.5 to SKr96.5, with news of a 26 per cent drop in first-quarter profits proving in line with expectations.

HELSINKI was higher as Nokia rose sharply to match its gain on Wall Street last Friday. Nokia put on FM7 at FM180.80, surprising some analysts with such a sharp rise ahead of first-quarter results due on Thursday. The Hex index firmed 17.73 to 1,986.08.

Raisio, the food and chemicals group, fell FM6 to FM156 after its profits warning.

OSLO was put out by a disappointing first-half result at the energy and drug group Hafslund Nycomed. Hafslund A fell NKr4 to NKr190; the total index shed 6.36 to 817.94.

MILAN was weak, reflecting Wall Street's dip, worries over the forthcoming mini-budget and April's unchanged inflation data, suggesting that the recent fall in inflation was at an end. The Comit index declined 1.46 to 657.00.

Italcementi, suspended on Friday ahead of the announcement on its 1995 results and its absorption of two affiliates, Cementerie di Sardegna and Cementerie Siciliane, was down L249 to L11,226.

In Eastern Europe, Hungarian and Polish shares offered more excitement to emerging markets fans. BUDAPEST attained a second successive high in spite of the holiday in the UK, a major market of Hungarian shares; the Bux index finished a further 32.22 ahead at 2,757.08, and has nearly doubled since late December.

Spot share turnover jumped to Ft1.04bn from the Ft969.4m registered on Friday. Further response to Friday's good first-quarter results took Richter, the drugs group, forward Ft210 to Ft5,835, and Borsodchem, in chemicals, rose Ft50 to Ft2,800 on yesterday's first-quarter report.

WARSAW topped 12,500 for the first time in 20 months, the Wig index climbing 130.7 to 12,570.3. Analysts said the higher turnover, up 40 per cent at 154.7m zlotys, and dominant buying after price fixing signalled that the market was likely to extend its gains this week.

PRAGUE was less ebullient after its gains last week, both the PX50 and RPIX indices closing unchanged at 543.2 and 1,163 respectively. Among the big blue chips, a fall of Kcs40 to Kcs3,435 in SPT Telecom was balanced by rises of Kcs15 apiece in CEZ, the power utility, and Komercni Banka to Kcs3,900 and Kcs2,200; but confectioner Cokoladovny saw a sell recommendation after higher 1995 profits and fell Kcs125 to Kcs3,900, having risen 12 per cent in the past two weeks.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Election uncertainties leave Bombay 1.9% lower

Uncertainty over the outcome of the country's continuing elections left BOMBAY 1.9 per cent lower as speculators pulled down the prices of pivotal shares such as Reliance and State Bank of India.

The BSE 30-share index lost 72.64 to close at 3,712.87 as analysts noted that foreign funds would remain cautious until a clear victor emerged in the polls.

They added that speculators were particularly active in Reliance as the shares were in a no-delivery period ahead of the company's book closure. This allowed speculators to play the stock without *payment or delivery for the next* three weeks.

Reliance and State Bank each retreated Rs13 to Rs246 and Rs268 respectively.

Tokyo, Manila and Bangkok were closed for holidays

HONG KONG, as in the case of many of the regional markets, tracked Wall Street's downward path seen on Friday, leaving the Hang Seng index 36.70 off at 10,697.54, but up from the day's low of 10,649.90. Turnover dwindled to HK$3.2bn.

Against the trend, HK Telecom jumped 45 cents to HK$15.30 and Hutchison put on 50 cents at HK$47.50.

Pearl Oriental leapt to the top of the most active list in late trade, gaining 2.5 cents at HK$2.05 on turnover of HK$256m, but brokers were unable to explain the activity.

Among major blue chips, HSBC shed HK$1 to HK$112, Hang Seng Bank receded 75 cents to HK$75.75 and Cheung Kong eased 50 cents to HK$53. Henderson Land was down 75 cents to HK$53.25.

KUALA LUMPUR was generally easier as investors reduced their exposure due to renewed fears of a US interest rate rise and persistent rumours of a large Malaysian trade deficit for February.

The composite index fell 14.11 or 1.2 per cent to 1,173.88, as dealers noted that the current high valuations of Malaysian stocks were also limiting fund buying.

JAKARTA dipped below 600 for the first time since April 10 after active foreign selling of Telkom, the JKSE composite index losing 8.45 or 1.4 per cent at 599.87.

Telkom fell Rp125 to Rp3,525 in active trading, some 7.7m shares changing hands. This followed Telkom's drop in New York on Friday, which brokers ascribed partly to generally weak market sentiment.

Polysindo, a second liner, made strong gains on talk of an impending share issue. Brokers said the company was likely to reach an agreement on a private placing through foreign houses, and 6.6m shares were traded as the stock climbed Rp125 to Rp1,650.

Bank Mashill ended Rp50 higher at Rp2,275 on reports that a business tycoon was planning to increase his stake in the company.

WELLINGTON, which had battled high interest rates for several months, closed sharply weaker, the NZSE-40 index slipping 30.24 or 1.4 per cent to 2,109.68 as bond yields continued to rise and investors worried about uncertainties surrounding this year's election.

Volume was thin at NZ$48m as market leaders fell, Telecom ending the day 6 cents down at NZ$6.18 and Fletcher Paper losing 5 cents at NZ$2.93. Carter Holt, buoyant in recent weeks after US analysts decided that the pulp and paper cycle had bottomed, relinquished 7 cents at NZ$3.32.

INL's 20-cent fall to NZ$5.05 was linked with weak April pagination data, a decline in the number of newspaper pages published reflecting low advertising volume; and Air New Zealand "A" was 7 cents weaker at NZ$3.58 as brokers said that the company might need a rights issue after the Ansett acquisition.

TAIPEI saw resistance at the 6,200 level and heavy profit-taking in hyper-sensitive financials, the most heavily weighted sector in the index, in spite of news that April's annual consumer price growth was lower than expected at 2.77 per cent.

The weighted index ended down 55.47 at 6,086.37, off a high of 6,201.16. Turnover was active at T$58.41bn but lower than in recent sessions.

In financials, Shin Kong Life dropped T$7 to T$108. Textiles, constructions and chemicals were weak, too, but the electronics sector rose 2.9 per cent on bright second-quarter prospects. Taiwan Semiconductor rose by the daily 7 per cent limit, for the second day, to T$64.50.

SYDNEY's base metals majors were a bright spot in a sluggish market as metals prices remained firm, CRA rising 17 cents to A$20.870, although the All Ordinaries index dipped 1.8 to 2,297.2.

The drugs group Biota moved forward 20 cents to A$3.75 after it said that preliminary clinical trials results of its GG167 flu drug indicated that it was well tolerated and could be effective in the treatment of naturally acquired influenza.

SHANGHAI's local currency A shares closed sharply higher on heavy demand for Shanghai Petrochemical amid rumours it plans to issue convertible bonds, while the hard currency B shares were little changed.

The A index advanced 23.01 to 698.14 as Shanghai Petrochemical surged 20.4 per cent. The B share index edged down 0.31 to 51.22.

SHENZHEN's A shares staged a strong rebound after three sessions on the downward path, fuelled by rumours that the China Securities Regulatory Commission would soon outline new measures to crack down on speculation in the commodities futures markets. The index rose 8.02 or 5 per cent to 169.46. The B index inched up 0.03 to 66.06.

SINGAPORE was lower on active selling by some fund managers of blue chip bank and property stocks.

The Straits Times Industrial index finished 12.60 down at 2,400.68.

Kemayan, a Malaysian OTC stock seen as a takeover target, was the day's most active issue. It recovered from an intra-day low of S$2.63 to close at S$2.75, still down 8 cents from Friday.

SEOUL was higher after a day of selective stock picking which took the composite index 9.45 ahead to 974.10.

Korea Long-Term Credit Bank rose Won1,400 in late trading to its upper limit of Won25,300 on rumours that Kyobo Life Insurance was planning to take over the bank.

Telecommunications shares climbed as investors speculated on which company would win a service licence in June.

Dacom rose Won9,000 to its upper limit of Won163,000 and Korea Mobile Telecom added Won41,000 at Won773,000.

Talk that Midopa Department Store was planning to expand its entertainment business by strengthening its cable television business sent its shares forward the day's limit to Won11,600, up Won600.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 3 1996								THURSDAY MAY 2 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (80)	210.11	-0.8	207.34	139.09	166.83	175.38	-1.1	3.93	211.84	209.46	140.17	168.81	177.28	211.84	162.68	172.81
Austria (25)	185.47	-1.0	183.02	122.78	147.27	147.19	-1.3	1.91	187.29	185.16	123.92	148.24	149.14	199.28	168.11	189.58
Belgium (31)	207.35	-0.8	204.62	137.26	164.64	160.51	-1.3	4.11	209.02	206.67	138.60	166.07	162.58	215.81	186.06	190.09
Brazil (28)	157.23	-0.4	155.16	104.09	124.85	287.16	-0.4	1.90	157.83	156.06	104.43	125.77	288.23	170.25	123.97	142.15
Canada (99)	161.65	0.2	159.52	107.01	128.35	159.52	0.2	2.37	161.38	159.56	106.76	128.60	159.17	162.75	134.14	135.94
Denmark (30)	296.24	0.4	292.33	196.10	235.22	237.30	0.0	1.90	295.17	291.85	195.30	235.22	237.30	305.17	272.15	273.63
Finland (23)	187.72	0.3	185.24	124.26	149.05	189.14	0.0	2.64	187.18	185.07	123.85	149.16	189.21	276.11	171.73	204.57
France (97)	196.25	-0.7	193.66	129.91	155.83	158.95	-1.0	3.01	197.56	195.45	130.80	157.53	160.58	198.39	167.70	188.05
Germany (60)	164.47	-1.2	162.30	108.88	130.59	130.59	-1.6	1.91	166.50	164.63	110.17	132.68	132.66	174.38	149.49	154.68
Hong Kong (59)	422.36	-1.7	416.78	279.59	335.36	419.48	-1.7	3.37	429.81	424.96	284.39	342.50	426.84	451.19	320.73	326.73
Ireland (16)	273.93	-0.3	270.32	181.34	217.51	248.11	-0.4	3.35	274.72	271.63	181.77	218.92	249.14	277.20	220.31	224.97
Italy (59)	83.20	-0.3	82.10	55.08	66.06	97.16	-0.3	2.18	83.47	82.53	55.23	66.51	97.51	83.87	67.22	76.72
Japan (481)	161.04	-0.1	158.92	106.61	127.87	106.61	0.0	0.72	161.12	159.31	106.61	128.39	106.61	164.79	137.75	163.98
Malaysia (107)	579.17	-0.8	571.53	383.40	459.87	556.31	-0.8	1.55	583.57	577.00	386.13	465.04	560.60	585.09	425.77	475.42
Mexico (18)	1233.63	-0.6	1217.36	816.64	979.53	10082.89	-0.5	1.44	1240.73	1226.75	820.95	988.71	10136.15	1313.61	791.99	1057.08
Netherland (19)	288.72	0.0	284.91	191.13	229.25	224.78	-0.5	3.14	288.80	285.54	191.09	230.14	225.95	291.80	237.16	250.87
New Zealand (15)	82.43	-0.8	81.34	54.56	65.45	63.75	-0.4	4.29	83.06	82.12	54.95	66.19	64.01	85.49	76.26	82.96
Norway (33)	249.04	-0.5	245.75	164.86	197.74	221.89	-0.8	2.34	250.17	247.35	165.53	199.36	223.65	255.75	215.04	229.67
Singapore (44)	435.82	-0.7	430.07	288.50	346.05	281.72	-0.9	1.35	438.79	433.84	290.33	349.66	284.26	465.21	356.81	368.83
South Africa (45)	362.17	-1.5	357.39	239.75	287.57	347.71	-1.0	2.02	367.63	363.49	243.25	292.98	351.34	437.76	338.51	363.22
Spain (37)	175.85	-0.1	173.53	116.41	139.63	169.91	0.0	3.27	176.03	174.05	116.47	140.28	169.98	179.85	141.19	143.20
Sweden (48)	342.02	0.3	337.51	226.41	271.57	345.84	-0.1	2.31	341.05	337.21	225.66	271.78	346.23	352.28	250.83	257.17
Switzerland (38)	237.91	-0.7	234.77	157.49	188.90	183.33	-1.1	1.59	239.47	236.77	158.45	190.83	185.40	252.34	184.11	190.05
Thailand (46)	181.92	-0.2	179.51	120.42	144.44	178.38	-0.1	1.84	182.22	180.17	120.57	145.21	178.55	193.95	146.74	161.87
United Kingdom (202)	229.16	-0.4	226.14	151.70	181.96	226.14	-0.6	4.07	230.14	227.54	152.27	183.39	227.54	237.43	209.12	213.57
USA (625)	262.10	-0.2	258.65	173.51	208.12	262.10	-0.2	2.24	262.75	259.79	173.85	209.38	262.75	269.11	212.45	212.80
Americas (770)	239.66	-0.2	236.49	158.65	190.29	201.42	-0.2	2.23	240.22	237.52	158.95	191.43	201.89	245.54	196.09	195.21
Europe (719)	206.78	-0.5	204.05	136.88	164.19	183.33	-0.8	3.03	207.64	205.49	137.52	165.62	184.79	211.35	181.77	187.23
Nordic (134)	294.84	0.2	290.95	195.18	234.11	261.25	-0.2	2.29	294.21	290.90	194.67	234.45	261.68	297.60	241.98	247.90
Pacific Basin (832)	173.80	-0.2	171.51	115.05	138.00	118.05	-0.2	1.13	174.23	172.27	115.28	138.84	118.31	177.01	148.86	170.68
Euro-Pacific (1551)	187.43	-0.4	184.95	124.07	148.82	142.82	-0.5	2.01	188.12	186.00	124.47	149.91	143.52	190.57	168.51	177.47
North America (724)	255.85	-0.2	252.47	169.37	203.15	255.16	-0.2	2.24	256.44	253.55	169.68	204.35	255.75	262.28	207.93	208.04
Europe Ex. UK (517)	189.38	-0.6	186.88	125.36	150.37	158.04	-0.9	2.47	190.43	188.28	126.00	151.75	159.45	192.67	163.36	168.75
Pacific Ex. Japan (351)	293.43	-1.1	289.56	194.24	232.99	252.46	-1.2	2.93	296.68	293.33	196.30	236.42	255.46	296.68	229.64	239.04
World Ex. US (1741)	188.48	-0.4	185.99	124.77	149.66	147.20	-0.5	2.01	189.19	187.06	125.18	150.76	147.90	191.55	167.36	177.98
World Ex. UK (2164)	209.03	-0.3	206.27	138.37	165.97	175.66	-0.4	1.92	209.68	207.32	138.74	167.09	176.29	212.60	179.23	185.82
World Ex. Japan (1885)	239.04	-0.4	235.89	158.24	189.81	227.25	-0.5	2.55	240.02	237.32	158.81	191.27	228.39	242.93	201.25	203.16
The World Index (2366)	210.88	-0.3	208.10	139.60	167.44	180.29	-0.4	2.11	211.56	209.18	139.98	168.59	180.98	214.52	181.82	188.27

Latest prices unavailable for this edition. Markets closed 3/5/96. Denmark and Japan.

invented telephone.

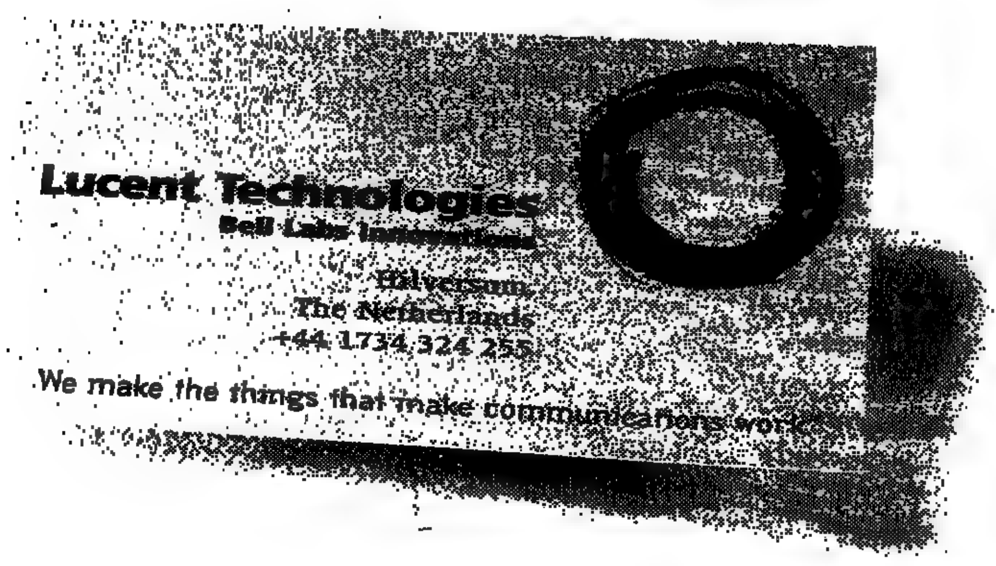
(ALSO transistor, laser, Telstar satellite, fiber-optic cable, cellular, voice mail)

Have won awards. (Nobel etc.)

Specialize in making things that make communications work.

Will do same for you.

The former systems and technology divisions of AT&T, plus Bell Labs, now Lucent Technologies.



Extension of chairman's term will be seen as vote of confidence in insurance market's recovery plan

Settlement with Names 'likely next year'

By Jim Kelly in London

Lloyd's of London will today announce that Mr David Rowland's term of office as chairman is to be extended by a year to the end of 1997 in what will be seen as a vote of confidence in the market's ambitious plans for recovery.

Mr Rowland, who became chairman in 1993, has spearheaded Lloyd's plans for reconstruction and renewal and is personally associated with the market's efforts to convince litigating investors that they should back the proposed settlement. The extension to Mr Rowland's contract, which was agreed by the market's ruling council, could also give Lloyd's an opportunity to alter the law so that his successor can be drawn from outside the market.

LLOYD'S
LLOYD'S OF LONDON

The announcement will also be seen as providing continuity following the unexpected resignation last November of Mr Peter Middleton as chief executive of Lloyd's to take a job with Salomon Brothers, the US investment bank.

Mr Rowland said yesterday that he took the council's offer as "a vote of confidence in the policies we have pursued for the past four years to restore the society's fortunes". He said he was "confident" the settlement would be completed in 1997. The news comes within hours of confirmation that Mr Rowland is expected to tell Names, the individuals whose wealth has traditionally backed the market, that the cost of setting up Equitas, a proposed rescue vehicle, has fallen sharply.

The extra funds Names are expected to be asked to provide will be about £1bn ($1.5bn). The Equitas premium had been expected to be £1.9bn. The steep fall in the cost will boost the chances of Lloyd's recovery plan succeeding when Names vote this summer. Offsetting the cost of Equitas, a reinsurance company which will take over billions of pounds of mainly US asbestosis and pollution liabilities, will be an out-of-court offer to loss-making and litigating Names worth £3.1bn. This could increase if auditors' contributions of about £100m are included.

Today will also see a judgment in the so-called Clementson case in which the Writs Response Group of Names claims that Lloyd's central fund is in effect a cartel and therefore in breach of European Union law. The fund is used to meet insurance claims when Names are unable or unwilling to pay debts.

Today also sees further hearings in the case between California securities regulators and Lloyd's. The regulators allege that Lloyd's mis-sold investment in the market and failed to warn potential Names of the risks involved, including those from pollution and asbestos related claims.

Directors' pay 'moving closer to performance'

By William Lewis in London

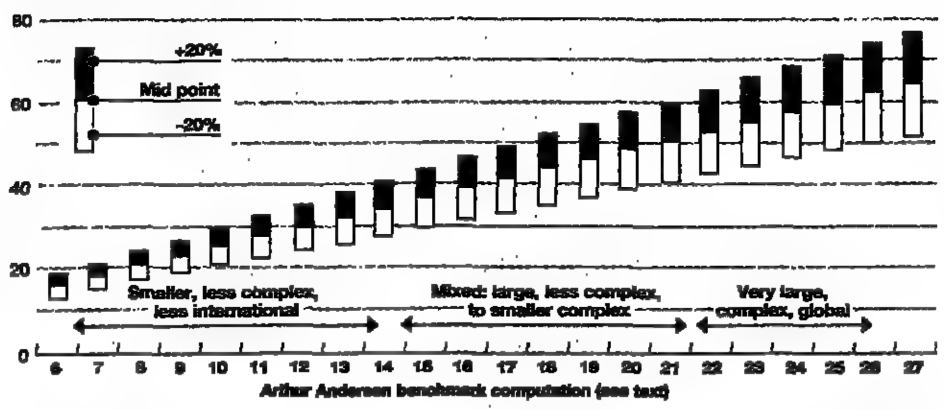
The basic pay of top directors in the UK has moved more into line with the size and complexity of the companies they run, says a report to be published today by Arthur Andersen, the accountancy firm. Directors' bonus payments are also beginning to bear more relation to corporate performance, the report shows.

However, Arthur Andersen concludes that the average increase in 1995 for top executives – basic and bonus together – was still relatively high at 8 per cent. The report finds that most companies have moved quickly to implement several of the main findings of the Greenbury committee's report on executive pay, published last July.

For example, 85 per cent of the companies surveyed – 40 companies, from the largest 250 public companies, which published annual reports during the period November 1995 to April 1996 – now make full disclosure of their directors' pay in line with Greenbury's recommendations.

"Boardroom pay is increasingly being determined by reference to objective factors, such as organisational size and complexity," says Mr Brian Friedman, head of Andersen's compensation and benefits practice. Andersen's findings are based on 200 of the largest 350 UK public companies.

Basic salary ranges



It found that a smaller group of companies – 14 per cent against 16 per cent in 1994 – paid their top directors basic salaries which are higher than a rate that the size and complexity of the businesses they manage implies.

Arthur Andersen allocates each company a score ranging from one, for the smallest, to 27, for large international companies which are also difficult to manage.

It then allocates a basic salary benchmark to each company's most senior executive. This year's survey, the second to be carried out using the so-called Arthur Andersen Complexity and Size methodology, found that 48 per cent of the basic salaries paid were in line with the model's estimate of what they should have been, against 42 per cent in 1994.

Evidence to suggest that more of a link is developing between corporate performance and executives' bonuses includes an increase in the percentage of companies not paying executive directors a performance bonus from 21 per cent in 1994 to 27 per cent last year.

Hopes rise for easing of beef ban

By Caroline Southey in Otranto and Alison Maitland in London

Mr Franz Fischler, the European Union commissioner for agriculture, said yesterday that he hoped to prepare the ground for an early easing of the worldwide ban on British beef and beef products, possibly starting tomorrow with a decision from the European Commission.

"I must wait for what the Commission will decide," he said, adding that any move would have to be agreed by the EU's standing veterinary committee, which would meet again next week.

Speaking during an informal meeting of EU farm ministers in Otranto, southern Italy, he underlined that any decision would have to be based on the advice of the EU's scientists as well as that of the World Health Organisation. He pointed out that "the WHO says that gelatine and tallow are safe if the process of production is safe".

However, French officials warned that France felt nothing had changed to warrant an early lifting of the ban, while German officials added that proof was needed that British gelatine, tallow and semen were safe before it would agree to an exemption from the ban.

Mr Jochen Borchert, the German agriculture minister, said there was a need "to give Britain the prospect of lifting the ban", but added: "We have to be sure about what they are doing."

Mr Fischler's move appeared to be an attempt to inject energy into efforts to resolve the seven-week crisis by applying fresh pressure on Britain to implement health measures and by forcing other member states to consider easing the ban. He said it was imperative that Britain implement programmes to ensure the safety of beef, such as the removal of meat from cattle over 30 months old from the food chain, a ban on specified bovine offal, and improved controls and tougher standards for rendering of carcasses.

"If these three things are worked on, the time will come to lift the ban. It is up to the British government and the beef industry to do their jobs," he said.

Mr Fischler said the principles behind Britain's plan for a selective slaughter policy were "okay", although the scheme might require "some additional points", including the possibility that herds with "multiple cases" of BSE – or mad cow disease – be slaughtered.

Former Barings chief faces City suspension

THE BARINGS COLLAPSE

The Securities and Futures Authority is expected to announce today that Mr Peter Norris, the former chief executive of Barings, is to be suspended for three years from its register of directors, Nicholas Denton writes. It will also demand costs of £10,000 ($15,100). But Mr Ron Baker, one of nine former Barings executives facing an SFA ban, has refused to accept the regulator's verdict and will today begin the process of appealing to an independent tribunal.

In a settlement with the SFA, Mr Norris has accepted that he failed to pursue a £50m discrepancy in the accounts of Mr Nick Leeson, the Singapore-based trader who eventually brought down the venerable bank.

But a statement of facts expected to be published today shows that several criticisms of Mr Norris have been dropped. The securities regulator has held back from declaring that Mr Norris is not "fit and proper" to work in the securities industry, which would have made it difficult for Mr Norris to find further employment in the sector.

Mr Baker, the former head of Barings' financial products group and Mr Leeson's ultimate boss, plans today to deliver a 20-page statement of defence rejecting the SFA's charges against him. By this action, Mr Baker is in effect forcing a hearing by a tribunal.

"This is the first opportunity in a year that I have had a chance for judicial review," Mr Baker said. He added that the importance of the Barings collapse for the securities industry had warranted a judicial inquiry from the start rather than the report by the Bank of England's board of banking supervision.

Mr Baker will seek a preliminary hearing with the chairman of the tribunal. The main hearing – which would typically take place before a panel of a senior judge, an SFA official and a financial expert – is not expected before October. In March, the SFA said Mr Baker had failed to act with due skill, care and diligence, and committed misconduct in failing to understand Mr Leeson's proprietary trading. It proposed to ban him for three years and charge him £10,000 in costs.

Mr Baker's defence is that the organisational confusion at Barings and Mr Leeson's fraud both came before his assumption of full control of Mr Leeson. Mr Baker said he was refusing a settlement "because the criticism is unjust and I want to clear my name."

Mr Ian Hopkins, the former head of group treasury and risk, has also rejected the SFA's charges.

Australian-born banker says he was scapegoat

By Nicholas Denton in London

Mr Ron Baker, the former Barings director who is today challenging a three-year ban by the Securities and Futures Authority, has always stood apart from his erstwhile colleagues at the failed UK investment bank.

Australian-born Mr Baker, 44, joined Barings in 1992 from Bankers Trust, the aggressive US investment bank which pioneered the derivatives business. He was from neither the corporate finance tradition of Baring Brothers, the merchant bank, nor the Far East securities broking culture of Baring Securities, the stockbroking arm.

When Barings collapsed with £830m of losses on derivatives trading in February 1995, Mr Baker was singled out by colleagues for particular blame. This was largely because, as head of financial products group, he was the ultimate boss of Mr Nick Leeson, the Singapore-based trader whose unauthorised trading doomed the bank.

Ron Baker: stood apart from colleagues at Barings

Being an outsider told against Mr Baker too. The merchant bankers of Baring Brothers, the patrician part of the group, described him as "Ron the Con" and revived an old Barings adage: never trust a man with a beard.

Mr Baker, in his first newspaper interview, has said that he believes he was a convenient scapegoat. "People wanted to believe that it was a phenomenon caused by somebody from outside, someone who looked a bit different, sounded a bit different.

"It was a tragic and utterly human characteristic for people to explain things in a way that made them feel more comfortable," he said. Many of his colleagues' criticisms found their way into the report on the Barings collapse by the Bank of England's board of banking supervision. Mr Baker said the Bank was reluctant to criticise executives who remained at Barings for fear of damaging the business, rescued by Internationale Nederlanden Groep, the Dutch bank. Blaming him was "an understandable commercial solution."

Mr Baker, who conceded to the investigators his lack of experience in exchange-traded equity derivatives, was blamed for believing that Mr Leeson's large reported profits were real, and for displaying poor commercial judgment.

He said the prosecutions unit of the SFA, the securities industry regulator, followed in the Bank's footsteps. It charged that Mr Baker failed to understand properly and monitor Mr Leeson's proprietary trading activity, and to ensure that staff were properly supervised.

In his response to the SFA Mr Baker is again standing alone. Mr Ian Hopkins, former head of group treasury and risk, has refused to settle with the SFA. But, among the nine Barings executives facing an SFA ban, only Mr Baker is taking the matter to tribunal.

His defence has three main elements. First, that the apparent profitability of Mr Leeson's trading was plausible. Second, that Mr Leeson's hidden 88888 account was a bogus client account and nothing to do with Mr Baker's responsibility for house trading. Third, Mr Leeson started his fraud in July 1992, suffered large losses by November 1993, and doomed the bank by the end of 1994. Although Mr Baker proposed Mr Leeson's bonus for 1993, he was only fully in charge of him from the start of 1995. Mr Baker's point is that he is taking blame for disorganisation which preceded his appointment.

UK NEWS DIGEST

Privatisation of Post Office back on agenda

The government intends to resurrect privatisation of the Post Office, which it abandoned two years ago after fierce opposition from many of its own supporters in the House of Commons. A pledge to sell the Post Office is set to be included in the Conservative party manifesto for the next general election, following agreement between ministers and Mr Brian Mawhinney, party chairman, that party opponents to the sale could be won round. Revival of the sell-off has been driven by senior ministers including Mr Michael Heseltine, the deputy prime minister. They believe the government "lost its nerve last time". Ministers are now considering the mechanics of the privatisation, which could include selling component businesses of the Post Offices separately.

In a separate signal of its continuing commitment to competition in the postal services, the UK Department of Trade and Industry will this week call on the European Commission to consider extending its proposals on postal service liberalisation. The DTI will give its support for the Commission's plan to allow private companies to compete for business mailshots of more than 5,000 letters and incoming cross border mail from the end of the century. Since the government abandoned the privatisation in June 1994, ministers have extended commercial opportunities for the Post Office.

James Harding, Westminster

Truck demand down sharply

Figures for truck registrations in April, to be published later this week, will show a severe fall in demand, casting doubt on previous hopes for recovery in the sector. The impact of the April registrations of commercial vehicles of more than 3.5 tonnes will reinforce bearish data for truck production in the first quarter, which showed output falling by more than 4 per cent to 62,277 vehicles compared with 65,194 a year before. The April figures mark an accelerating downward trend for truck registrations, which have now dropped in three out of the past four months. A small rise in March has been dismissed as unrepresentative by industry executives because it reflected a big sales push by one leading manufacturer.

Figures for truck sales are generally seen as advance indicators of confidence in important sectors of the economy, such as construction and retailing. "There are signs of a pick-up now," said Mr Tony Pain, sales manager for Leyland Daf Trucks. But leading truckmakers warn that the market is being distorted by uncertainty about the timing of new European noise and emission rules, due to take effect in October.

Haig Simonian, Motor Industry Correspondent

Spitfire pilots scramble again

Twenty-one Spitfires flew across central England yesterday in one of the biggest gatherings of the aircraft since the second world war. The crowd of more than 30,000 people at the Imperial War Museum's airfield about 80km north-east of London included Mr Gordon Mitchell, the 75-year-old son of Reginald Mitchell, who died soon after the first Spitfire made its first flight 60 years ago. Air Vice Marshal "Johnnie" Johnson, one of the top-scoring allied pilots of the war, said at the airfield: "I am surprised at the interest, but I think the Spitfire

has become a kind of immortal thing that people feel helped gain them freedom." The Supermarine Spitfire, powered by Rolls-Royce engines, was the most famous fighter flown by the Royal Air Force in the war. Forty-seven Spitfires are believed still to exist.

Hugh Clayton, London

Boost for accountants

Accountants are to play a more central role in the financial management of the government machine following publication of a report which says that it fails to use all their skills. The report by Mr Andrew Likierman, head of the government accountancy service, says there are "deep-seated problems" over the role of accountants and a "continuing failure to harness" what they have to offer. He recommends that the focus should move "away from accountants and towards accountancy". In the first report on accountants in government for five years he says it must be recognised that "the main role of accountants is to improve financial management . . ."

Jim Kelly, Accountancy Correspondent

Banks to meet on failures

The Bank of England is to hold a conference of senior bankers on May 30 as part of continuing efforts to forge an international understanding on how to deal with complex cross-border rescues of companies in financial trouble. The Bank is seeking the views of bankers from Europe, the US and Japan on extending the so-called "London approach" developed in the UK to deal with large corporate collapses. At present cross-border corporate rescues can be frustrated by a wide range of different insolvency procedures.

Jim Kelly

Siemens executive warns of threat to high-tech growth

By Chris Tighe
Newcastle upon Tyne

Future expansion of the UK semiconductor industry is in jeopardy unless the shortage of suitable recruits is tackled soon, one of the sector's leading managers warned yesterday.

Mr Llew Avis, personnel director at Siemens' microchip plant under construction in north-east England, said the British government was taking the skills shortage very seriously. Creation of a National Microelectronics Institute is being discussed, and northern England and Scotland – which together comprise the biggest concentration of semiconductor manufacturing in Europe – are competing for the project.

Since the Institute's aim would be to increase technical knowhow and skill, it is likely to give the area in which it is located a competitive advantage in attracting more microelectronics inward investment. The Korean groups LG, Daewoo and Hyundai are all known to be considering the UK for semiconductor manufacturing investment.

Mr Avis said there are enough skilled people to cope with UK semiconductor projects already under way. Those include Siemens' project, which is expected to employ 1,300 people by 1999. A second phase, still under consideration, would recruit several hundred more.

Mr Avis was personnel director of Fujitsu's European microchip plant in north-east England before he joined Siemens last November.

But, Mr Avis said, action is needed to ensure that if any more semiconductor manufacturers choose the UK, increasing the sector's overall size, the necessary skills are available. "If it gets substantially greater we are going to have to start taking some different action," he said. "Action is required by employers and by government."

More suitably qualified graduates were required, with greater specialist microelectronics knowledge, he continued.

Growth of offshore havens causes worry

Roger Taylor assesses growing pressure on favourite methods of tax avoidance

Offshore tax havens around the UK are growing very rapidly. So rapidly, indeed, that there is alarm in high places. The Inland Revenue is investigating offshore subsidiaries of UK building societies, and several have been asked detailed questions about their operations. With more than £6bn ($9.1bn) invested in them offshore, the Inspector of Taxes is worried about the potential loss of tax revenues.

The opposition Labour party is worried, too. Mr Gordon Brown, the party's shadow chancellor of the exchequer, hit out recently at financial advisers who recommend moving money offshore to avoid the risk of paying higher taxes should Labour be elected at the coming general election.

The main offshore centres for UK investors are Luxembourg; Dublin, the capital of the Republic of Ireland; the Isle of Man off north-west England; and the Channel Islands of Jersey and Guernsey between England and France. The islands all make their own tax laws. All are growing fast. Over the past two years, deposits in Jersey have risen by 67 per cent, in the Isle of Man by 55.7 per cent, and in Luxembourg by 187 per cent.

The story is the same for investment funds. Those in Dublin, Luxembourg and Isle of Man are increasing at about twice the growth rate of UK domestic funds.

Most fund managers, along with offshore banks and building societies, are at pains to point out that most of this business does not come from UK residents. Indeed, most are careful not to seek money actively from the UK. Mr Richard Buchanan, marketing manager of Abbey National in Jersey, says: "If you advertise in the UK for business, some of it will fall into the dodgy category. We have a reputation and do not want to encourage business which is less than reputable."

'We have a reputation and do not want to encourage business which is less than reputable'

The problem for offshore financial institutions is making clear that, while they are happy to help with the entirely legal activity of tax avoidance, they want nothing to do with illegal tax evasion. Offshore banks and building societies are the most sensitive on this issue, perhaps because they can offer least in the way of legitimate tax avoidance.

Offshore accounts pay income gross. The law says the income must be declared and tax paid, so all the investor gains is a tax deferral of several months. But checking on whether people actually are declaring their gains is the Revenue's big problem.

Offshore funds, in contrast, offer several ways of *avoiding* tax. Roll-up funds allow investment returns to accumulate offshore, and tax is paid only when the investment is cashed in.

Despite this, many offshore fund management groups are keen to distance themselves from UK investors. Robert Fleming and Mercury Asset Management, two of the biggest UK fund managers in Luxembourg, say their offshore funds are not designed for UK investors and are not marketed to them.

Mr Edward Morse, director of offshore sales for Flemings, adds: "We are not sucking money out of the UK into Luxembourg. We do sell a lot of products in the UK, but money does not come from UK Joe Normal. The vast majority of the money is already offshore. It could, say, be someone who worked in Saudi Arabia, made a nice little nest egg and does not want it taken by the taxman. Sales may be made in the UK but that does not tell you where the money comes from".

Other companies differ. Murray Johnstone markets offshore funds aggressively in the UK as a way to avoid tax. Offshore life companies also have no doubt about their attractions to UK investors. Mr Alan Morgan-Moodie, of Clerical Medical on the Isle of Man, says: "Offshore life insurance exists as part of the UK tax-planning industry." He estimates that between £6bn and £7bn has been invested in offshore insurance bonds, which can be combined with offshore trusts to create tax-free funds.

One reason for the rapid growth of the offshore industry is the improving regulatory framework. In recent years, offshore investments have been tainted by associations with financial scandals such as the Barlow Clowes affair in which thousands of people lost their savings.

However, the European single market ensures standards of regulation for Dublin and Luxembourg funds. The Isle of Man has set up deposit and policyholder protection schemes as good as those in the UK.

BEHIND THE NET

A new epidemic of computer viruses is infecting personal computers linked to the Internet and corporate networks. It is costing businesses billions of dollars in lost computer time, disruption of business operations and eradication efforts.

The National Computer Security Association, a US industry group, estimates that costs of viruses to US companies and organisations will soar to between $2bn and $3bn (£1.3bn-£1.9bn) this year, up from about $1bn last year.

Virus infections have increased almost tenfold in corporate America over the past year, according to an NCSA study published last month. The survey of 300 companies and organisations, each with 500 or more PCs, found that the likelihood of a virus infection rose from approximately one per 1,000 PCs during the first few months of 1995 to 10 infections per 1,000 PCs early this year.

Much of the increase in virus problems is attributed to a new generation of "macro virus" programs, and in particular the so-called "Concept" virus. Concept is one of about half-a-dozen macro viruses that are associated with Microsoft Word, the most widely used word-processing program. It first appeared about nine months ago and has run rampant among Word users worldwide.

Unlike other viruses, which are carried in PC programs and spread via infected floppy discs or software downloaded from network servers, macro viruses lurk in documents such as word processor or spreadsheet files.

A macro virus is a piece of self-replicating computer code written in the macro language of an application program. The macro virus masquerades as a legitimate macro – a miniature time-saving program intended to automate frequent tasks such as document formatting.

The danger lies in macros that run automatically. These include, for example, the commands to open or close a file. Once a macro virus is running, it can copy itself to other documents, delete files and create general havoc in a PC without the user's knowledge.

A PC can become infected by a macro virus simply by opening a contaminated document file which might have been transferred to the computer on a floppy disc, downloaded from a network or transferred as an attachment to an e-mail message. This makes macro viruses far more contagious than earlier types.

The Concept virus has spread "faster than any virus in history", says Peter Tippett, president of NCSA. The virus has moved ahead of almost every other virus in terms of numbers of known infections in just the past nine months.

Computer viruses linked to the Internet are costing companies time and money, says Louise Kehoe

Infectious behaviour

The most troublesome finding in the NCSA study, however, is that Concept is spreading, to a large extent, via e-mail. This raises a serious problem for users of the Internet, who are likely to receive documents as e-mail attachments. Innocently or otherwise, the sender may infect the recipient's computer with a virus. This is a case of truth being stranger than fiction. For more than a year, a hoax has been spreading among Internet users warning that e-mail messages titled "Good Times" contain a damaging virus. In reality, there is no "Good Times" virus, but any e-mail message that carries an attached file must now be considered a potential source of infection.

Fortunately, Concept, and most macro viruses, do not cause serious damage to a computer. However, they produce annoying messages and cause problems with printing and saving documents. Moreover, new macro virus strains that have appeared over the past few months are more virulent.

These include Hot, a virus that deletes Word documents when they are opened; Format C, which also deletes files; and Atom, designed to delete files on December 13.

The latest macro viruses also include two that target users of Lotus Development's Ami Pro and Word Pro word processors, according to S&S, publisher of the Dr Solomon's Virus Toolkit which detects and repairs the damage caused by viruses.

The only sure way to avoid macro virus infections is to use the latest anti-virus scanning software, according to the US Department of Energy's Computer Incident Advisory Capability group.

"Documents are much more mobile than executable files in an organisation, passing from machine to machine as different people write or edit them," the group notes. "The vulnerability of systems to this type of virus is high, because most users are not in the habit of scanning documents."

Until recently, most anti-virus products could not detect and prevent the dissemination of macro viruses. However, Microsoft now offers a scanner program that detects Word macro viruses. The latest version of the scanner software can be downloaded free of charge from Microsoft's Internet Web site: *http://www.microsoft.com/msoffice/freestuf/msword/download/mvtool/mvtool20.exe.*

Unfortunately, the macro virus scanning process is cumbersome since it involves scanning every new document loaded on to a computer. "The virus war is being fought with tanks and artillery, but the enemy is arriving by air and parachuting behind the lines," says Daniel Chiang, president of Trend Micro, which recently launched "Virus Wall" software.

Similar in concept to "Firewall" software designed to exclude hackers, the Virus Wall is designed to prevent viruses entering a corporate network by scanning all incoming traffic.

"The way to prevent these new attacks from disrupting productivity, or worse, destroying data, is constant, automatic scanning for all strains of the virus," says Chris Risley, chief executive of On Technology, which has developed another macro virus antidote.

For organisations that find themselves already infected with a macro virus, however, eradication can be time-consuming and costly. Every document file much be checked and rechecked to ensure that no copies remain.

The NCSA study found that infections were typically found in more than 100 PCs and five or more servers at a single site. On average, businesses spent 44 hours, 10 person-days of work and more than $8,000 to deal with each incident of virus infections. The costs are often far higher, however, if valuable files are damaged or destroyed.

Software doctor's growing patient list

Taiwan-based Trend is a leader in the race to produce new data defence systems, says Laura Tyson

The company that cracked the infamous Michelangelo virus which terrorised computer users in the early 1990s has developed software that can detect and kill viruses infecting files as they are taken off the Internet.

As computer hackers around the globe seek to capitalise on the greatly expanded opportunities for pranks and sabotage offered by the Internet, makers and users of computers will need to build up defences against viruses – programs deliberately created to destroy computer data or systems.

Taiwan-based Trend Micro Devices, one of the world's leading producers of anti-virus software and network security systems, is marketing software that can scan for both known and unknown strains of viruses in files transmitted through e-mail, bulletin-board systems and other on-line applications or downloaded from the Net or Web sites.

"With the Internet, viruses are being carried around the world much more quickly and the potential impact can be far greater," says Steve Chang, Trend's chairman and founder.

"In the past there used to be a time-lag of several months before a virus from the US would turn up in Asia, for example. But starting last year, with Internet use really taking off, viruses are now being transmitted everywhere instantly."

Some competitors claim similar "real-time" detection capabilities but do not accommodate special format or encoded files, which Trend's product automatically converts as it scans, says Lin Shih-chin, a technician.

The introduction of Microsoft's Windows 95, a new operating system launched last year and expected to sell 50m copies worldwide, is likely to increase problems with viruses because Windows 95 has a more direct interface with the Net than other systems.

Trend has developed anti-virus software specially designed for Windows 95, which has some resistance to infection but apparently not enough. "Out of 200 live viruses we tested on Windows 95, 85 per cent survived. That is pretty scary for the user but I'm looking good," says the exuberant Chang.

"Viruses are definitely going to be a growing problem and an added source of revenue for anti-virus software-makers," says J.N. Menon, a Singapore-based software industry analyst at Dataquest. "Internet use is spreading like wildfire, and with Windows 95 the need for anti-virus protection is going to go up because of this external threat."

Touchstone, a US software retailer, is distributing the new software, PC-cillin 95, in the US under the Touchstone name.

> **'There used to be a time-lag of several months before a virus from the US would turn up in Asia. With Internet, viruses are now being transmitted everywhere instantly'**

Chang expects Windows 95 to generate $11m (£7.2m) in sales for Trend in the year after launch.

While Taiwan's pre-eminence in computer hardware production is well-known, the country's software industry can hardly even be described as nascent as it focuses mainly on localisation of foreign products.

Trend has expanded from just seven employees four years ago to 100 today, including 40 engineers. "Curiousity is what really got me into it," says Chang. "Why are these people writing viruses when there is no profit? How does a virus spread?"

He launched his first company, which used a localisation software to convert databases into Chinese-language format, in 1984 with $100,000 scraped together from family, friends and "business angels" to buy the source-code technology. Soon afterwards he was faced with piracy in Taiwan and in China. "It was such a big investment for us and we had to protect it, so we were forced to invent a security key," he says.

In 1987 he sold the security key concept to a US company for $120,000. "From this I learned that not only does your technology have to be unique and useful, but you have to leverage it," he says.

With the proceeds Chang moved to Los Angeles and founded Trend in 1988 as a software and data security company. The following year, one of his software engineers brought him a floppy disc containing a virus and showed how it could infect one file after another.

"I could see immediately that this represented a real threat to the operating systems of personal computers and network systems," says Chang. "So I just went on my instinct. I didn't know the market at all. As soon as I saw it I just said let's do it."

When Michelangelo struck in 1991, Trend got its first break and sales tripled. Then the company developed the first server-based anti-virus software – before that it had all been client-based – but lacked the resources and reputation necessary to sell it to leading US companies. The new software enabled users to scan for and eliminate viruses at the centre of a network instead of simply at individual computers.

Lured back to Taiwan by the Taiwan government and the prospect of greater returns, Trend in 1994 moved its company registration from the US to Taiwan and plans to be the first software company to list on the Taiwan Stock Exchange.

It now has a computer virus bank with more than 5,000 live strains with names such as "pingpong", "ambulman," "stanford", "crumble", "melt" and "egaflip". Some 200 new ones are created each month. The former eastern bloc countries, especially Bulgaria, are a rapidly growing source of viruses, with about 30 per cent originating from the region, Chang estimates.

ARTS

Portrait of Pope Innocent X by Velazquez; and Francis Bacon's 1949 'Head VI'

Two masters pay their papal dues

William Packer discusses the popes painted by Velazquez and Francis Bacon

The portrait of Pope Innocent X by Velazquez is one of the greatest psychological portraits ever painted. The pope looks out at us, fixing us with his implacable gaze, daring any challenge to his God-given authority. It has been the star item in Room 30 of the National Gallery, London, as part of a selection of great paintings on loan from the Doria Pamphilj Gallery in Rome.

The selection includes works by Caravaggio, Raphael, Claude and Guercino but even in this distinguished company, Velazquez's pope, all white and crimson silk in his gilt-and-red-plush chair, fills the canvas, as he fills any room it occupies, with his powerful and brooding presence.

The portrait fascinated Francis Bacon. The story is that he knew it only in reproduction, even though he spent some time in Rome. Was he, too, afraid of its almost palpable and troubling power? Who can say? Some find in it a strong coincidental likeness to Bacon's own hated and sadistic father, who had him whipped in public by his groom.

The fact is that Bacon first adopted the ambiguous image of a caped prelate in 1949, boxed as though within the notional space commanded by a chair. The top of the head is cut off, the mouth open and screaming in direct quotation of the famous image from Eisenstein's film, *The Battleship Potemkin*. Screaming or otherwise, in versions large and small, the idea and image continued to preoccupy him, off and on, for nearly 20 years.

Four of these paintings are known to have remained in England, in public and private hands. Two are early in the sequence, that small first screamer of 1949, and a larger, more fully if loosely-stated and rather thoughtful Pope, clearly worked from the original, though rather wonky and off-centre, dating from 1951.

Both are low-toned, grey and purple, which suggests the black-and-white reference available at that time. The other two are from 1961 and 1965, the first rather modish in its flat and schematised green throne against a dark background and fluid working of the pink and crimson pope, the other richly expressionist and yet closest of them all to the original in colour and pose.

The opportunity has now been taken to hang them with their inspiriting original for the final three weeks of its stay. This proves to be a bold and successful stroke. As with the paintings by Lucian Freud that were hung within the Dulwich Collection the year before last, to compare is not to compete. Here is no question of better or worse, but only of distinction and connection.

What is made clear is that the Bacons hold their own in the company, different as they are and of their own time, but part of that continuum of practice that brings artists together across the ages.

Once the imagery is accepted, as with all good painting, they bring us back to the surface and the stuff of the paint itself as the artist has laid it on the surface: Bacon delicate for all his urgency and impulsiveness; Velazquez so soft and swift of touch, so economical and exact.

There is a passage under the nearer arm of Velazquez's pope, partly in shadow, where the white surplice, with its pleats and fringe of lace, falls across his thigh and round the pillar of the chair, strokes of white on white on white – as inventive, radical and minimal a piece of painting as one could ever see.

Over in Room 4, more debate, if not controversy, as Holbein's huge double-portrait, "The Ambassadors", returns to view after its lengthy restoration. Should such things ever be cleaned, let alone restored? It seems a matter of common sense in the first instance to prevent deterioration; and if there is extraneous matter on the surface, it seems not unreasonable to remove it. Is previous restoration thus extraneous? That depends on how well it was done, but where possible it is as well to get down to the original surface to determine the extent of any loss. No restoration should ever be irreversible. And if what was lost is known and can be replaced, replace it.

This case is a wonderful vindication of such a policy, and a personal triumph for the gallery's chief restorer, Martin Wyld. The luck was that after 19th-century work was removed, the principle damage was low down on the left, and along the cracks between the ten oak planks that make up the panel – which it was Holbein's compositional trick to dodge where possible.

The colours are now rich and fresh, but never gaudy, and what has come back is all the subtle shadowy space beyond the two men, beneath the bench and on the floor, and the skull now reads as the proper skull it was not before.

Wonderful.

Velazquez and Bacon – paintings of Popes: National Gallery, Trafalgar Square WC2, until May 18; Holbein's "The Ambassadors" Restored: on permanent view.

Richard Fairman on the opening of the Maggio Musicale in Florence

The calm before the storm

Unlike Cambridge May Week, the Maggio Musicale in Florence is partially true to its title. It does at least start in May, even if the *Maggio* continues to the end of June and has now virtually been absorbed into a round-the-year season of events of which it is a barely distinguishable part.

This year's programme offers no particular theme or focus of attention, more a collection of bigger names than are found in the winter or summer schedules. Two of them – the producers of the two new opera productions – happen to be British, but that probably reflects a general trend towards acceptance in Europe that has been growing for some years. The casts and performers in concert are as international as anywhere else.

For the opening night on May 2 the festival offered a new production of Mozart's *Idomeneo*, produced by Jonathan Miller. It was a safe choice, as Miller has already been responsible for the Mozart/Da Ponte trilogy in Florence (one opera a year between 1990 and 1992) and his way with the composer must be a known quantity. In a country where good singing still counts for more than production values this is easy to understand. Whether they expected a production quite as predictable as this is another matter.

No surprises were sprung. No risks were taken. Watching a performance as deadeningly uneventful as this, it is easy to become oblivious to the life-and-death issues being enacted on stage and find oneself listening to the music as if it is a piano concerto or a string quartet. There was no emotional energy emanating from these characters at all. They looked and moved more like two-dimensional illustrations from a dusty tome on operatic history.

The programme-book listed Miller as co-designer with Giles Cadle, and between them they came up with a fashionably clean-cut set, all in white. Its sleek lines and polished surfaces were at one with the musical performance, which showed no more sign of wanting to explore below the surface than had Miller with the drama. Semyon Bychkov has taken on board the faster speeds and snappy rhythms of the authentic brigade, but uses them merely to produce an updated version of "Dresden china" Mozart, every bit as soulless as the original.

It takes a certain amount of will-power for the singers to overcome restraints like these, but two at Saturday's performance did. Nuccia Focile sang Ilia with feeling and spontaneity, as though she really meant what she sang. Hillevi Martinpelto is not the wild creature that Elettra should be, but sings the long Act 2 scene with a purity of voice and style unequalled by anybody else today. The central relationship between Idomeneo and his son Idamante went for little, despite Deon van der Walt's scrupulous coloratura semiquavers and Vesselina Kasarova's elegant phrasing. Who would have noticed they came within a knife edge of human sacrifice?

There is plenty of that in Strauss's *Elektra* too and I was sorely tempted to add another body or two to the pile after Sunday's performance in Florence. While the *Idomeneo* never had much chance of success, the *Elektra* was a potentially tremendous evening ruined by large-scale, and surely unnecessary, amplification. It was not clear whether somebody thought the Teatro Comunale acoustics were not good enough or if a set so deep caused them problems. Either way the result seemed to me hugely regrettable.

The production can only have fitted better at the Salzburg Easter Festival, where it originated. Here, as the singers roamed around the set, they became huge, disembodied voices, which echoed as if they were being relayed from the Duomo up the road. Deborah Polaski's Elektra and Reiner Goldberg's Aegisth simply do not sound like this in real life, as I know from hearing them a fortnight ago in Paris. Nor were Karita Mattila's Chrysothemis and Marjana Lipovšek's Klytemnästra blown out of proportion any less.

So, to report that they all seemed in good voice and that Claudio Abbado and the Berlin Philharmonic gave a performance of thrilling concentration and dramatic intensity, played to perfection, is all the more painful. How could Abbado, after his highly-publicised stand against his record company over artistic integrity, have agreed to a sell-out like this?

Keeping in tune with the public

Antony Thorncroft talks to Nicholas Kenyon

Nicholas Kenyon looks remarkably relaxed for "the man who single handedly is destroying western civilisation." Three years ago he took over as controller of Radio 3, and roused the vociferous fury of the old guard by some gentle lightening up of BBC radio's arts channel. Last week he confronted an even more fanatical cult, the Proms audience, by unveiling his first programme as director.

There was little in it to mount the barricades. "I wanted to do some things differently, but the Proms has such a fabulous tradition that it is a case of development not revolution. That is not to say there is nothing more to be done."

Kenyon best displays his caution by preserving the Last Night shenanigans: "It would be more than my life's worth to change it." But unlike his predecessor, John Drummond, who tried to introduce some decorum to the proceedings by banning hooters and raising the musical seriousness of the occasion, Kenyon is all in favour of a little jollity. "There should be a spirit of genuine celebration at the end of the festival".

After last year's orgy of new music Kenyon is also concentrating on works never heard at the Proms before – but pieces by unfrightening names like Mozart, Haydn, Bach and Handel. All through the programme there are minor innovations: a Junior Prom for schoolchildren; a linked chamber music series; a concert of Broadway songs – to set against the fixed traditions: a Viennese night; great visiting orchestras (from Berlin, Chicago, New York); curiosities, like concert performances of Beethoven's discarded opera *Leonora* and Kurt Weill's *The Silver Lake*.

The aim is to make every Prom an event, and although there are still routine concerts among the record number of 72 Proms, the loyal Promenaders should ensure that the box office target is hit. Amid talk of an ageing and declining audience for classical music in London – and elsewhere – the Proms defy the pessimists: last year, with a challenging programme, it attracted 81 per cent capacity. This year it should do even better.

Fixing the Proms has not taken Kenyon's eye off his day job – running Radio 3. Indeed one of his innovations is to link the Proms even closer to the network, ensuring that works by the *Composer of the Week*, and performances by the *Artist of the Week*, are featured at the Proms. The Proms will also get additional Radio 3 coverage through more news and reviews on air.

After all, this biggest music festival in the world attracts new listeners to Radio 3 – 1m time in each week, an astonishingly high figure when set against the channel's average weekly audience of 2⅓m, an audience which shows no signs of flagging, despite the competition of Classic fm.

Kenyon has succeeded in facing down his critics. Even his most controversial move, to give the key *Morning Collection* slot to Paul Gambaccini, not only a former pop DJ but also an American, seems to be paying off and attracting new listeners. "It was a totally right decision. Radio 3 can become a little broader without throwing away everything".

Kenyon sees his job as maintaining "a real balance between the expectations of the existing audience and the need to make ourselves enjoyable to a new audience." However, while not giving an inch in public, Kenyon has backtracked on some of his original changes. The chatty presenters and the intrusive information which so upset traditional listeners to the key morning programme *On Air* and the early evening *In Tune* have been curbed. "The presentation style has got to settle down."

To ensure consistency, within the the next month a new presentation format will be unveiled for the channel which, in theory, will enable it to speak with a single voice. Kenyon hopes this will combine "warmth with authority. The announcers will speak from a position of knowledge and enthusiasm." He has also accepted that Radio 3 caters for a wide range of niche audiences: he

Nicholas Kenyon: his first Prom season

speaks warmly of such hoary favourites as *Choral Evensong*, and he is prepared to look again at the ever-festering row over the paucity of jazz coverage.

Kenyon is starting to speak with authority. He is set for a long haul. Although his Radio 3 job comes up for renewal in 1997, he will be responsible for the Proms until 2000: it would be remarkable if he did not continue in both posts until the millennium. Having weeded out some of the elitist approach which deterred new listeners, Kenyon is now building bridges with the traditional audience.

They should welcome his latest achievements. Schools broadcasts, which commandered the wavelength in the afternoon, have finally been cast off, and last weekend Radio 3 became a 24 hour channel. The programming after midnight may not sound too enthralling – concerts borrowed from European Community classical music stations – but it suggests that Kenyon, and Radio 3, are in an expansionary, even visionary, mood.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Radio Kamerorkest: with conductor Frans Brüggen and the Groot Omroepkoor perform Beethoven's Die Geschöpfe des Prometheus, Op.43 and Haydn's Theresienmesse. Soloists include soprano Regina Nathan, alto Monica Groop, tenor Mark Padmore and bass Nanco de Vries; 3pm; May 11

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: with conductor Yutaka Sado and pianist Babette Hierholzer perform works by Brahms and R. Schumann; 8pm; May 10

Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Mass in B minor: by J.S. Bach. Performed by the Berliner Konzert Chor and the Berlin Sinfonietta with conductor Matthias Elger. Soloists include M. Deubner, B. Bartosz, N. Giesecke and M. Hoff; 8pm; May 9

OPERA
Komische Oper Tel: 49-30-202600
● La Bohème: by Puccini. Conducted by Winfried Müller and performed by the Komische Oper. Soloists include Hellmich, George, Mewes and Nau; 7.30pm; May 10

■ BONN

EXHIBITION
Kunst- und Austellungshalle der Bundesrepublik Deutschland Tel: 49-228-9171200
● Wisdom and Compassion. The Sacred Art of Tibet: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents the important stylistic developments from the 9th to the 19th century. On display are 190 objects of sacral art, mainly scroll-paintings (tangka) and ornate metal sculptures, but also application work and tapestries as wel as wooden, ivory and stone sculptures with a strong religious expression; from May 10 to Aug 25

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● MDR-Sinfonieorchester Leipzig: with conductor Jan Latham-Koenig and pianist Philippe Entremont perform works by Gershwin and Weill; 8pm; May 9

■ DETROIT

EXHIBITION
The Detroit Institute of Arts Tel: 1-313-833-7963
● Treasures of Venice: Paintings from the Museum of Fine Arts, Budapest: exhibition of 55 works from Venetian artists such as Bernardo Bellotto, Canaletto, Paolo Veronese, Giorgione, Titian, Tintoretto and others. The exhibits include paintings depicting religious and mythological subjects, 18th-century Venetian landscapes and a selection of portraits; to May 12

■ FLORENCE

CONCERT
Teatro Comunale Tel: 39-55-211158
● Orchestra del Maggio Musicale Fiorentino: with conductor Semyon Bychkov perform works by Beethoven and Haydn; 9pm; May 10, 11

■ FRANKFURT AM MAIN

DANCE
Das TAT im Bockenheimer Depot Tel: 49-69-21237666
● I was Real - Documents: a choreography by Saburo Teshigawara to music by Hindemith, performed by Karas. Soloists include Saburo Teshigawara, Allison Brown, Satoru Choko and Emio Greco; 8.30pm; from May 8 to May 11

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Felicity Lott: accompanied by pianist Graham Johnson. The soprano performs songs by Fauré, Barber and Poulenc; 6pm; May 9
● Nobuko Imai, Leonidas Kavakos and Oystein Birkeland: the viola-player, violinist and cellist perform works by Beethoven, Ravel and Lutoslawski; 8pm; May 8

EXHIBITION
Barbican Art Gallery Tel: 44-171-6384141
● Eve Arnold: In Retrospect/Derek Jarman: A Portrait: two exhibitions shown at the same time. Eve Arnold: In Retrospect covers the life's work to date of photographer Eve Arnold, who for more than four decades has served as witness through camera and words to many of the major figures and events of the latter half of the 20th century.

■ NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● American Symphony Orchestra: with conductor Leon Botstein perform works by Weill, Schreker and Hindemith; 8pm; May 10

JAZZ & BLUES
Carnegie Hall Tel: 1-212-247-7800
● Richard Stoltzman: performance by the clarinettist, featuring Bill Douglas on keyboards and Eddie Gomez on bass. The programme includes works by Ornette Coleman, Thelonious Monk and Duke Ellington; 8pm; May 10

■ PARIS

CONCERT
Salle Gaveau Tel: 33-1 49 53 05 07
● Catherine Marchese and Emile Naoumoff: the bassoonist and the pianist perform works by R. Schumann, Satie, Naoumoff, Fauré, Saint-Saëns, Françaix, Petit and Boulanger; 8.30pm; May 9

DANCE
Théâtre du Châtelet Tel: 33-1 42 33 00 00
● Limb's Theorem: a choreography by William Forsythe to music by Willems, performed by the Ballett Frankfurt; 8.30pm; to May 11
Théâtre National de l4Opéra - Opéra Garnier Tel: 33-1 42 66 50 22
● Ballet de l'Opéra National de Paris: perform Petit's choreographies Rythme de valses, Camera Obscura ou l'amour est aveugle and Le Loup; 7.30pm; May 8, 11, 14, 15

■ SALZBURG

EXHIBITION
Rupertinum - Salzburger Landessammlungen Tel: 43-662-80422336
● Marc Chagall. Die Radierungen zur Bibel 1930 bis 1957: exhibition of a series of 105 illustrations by Chagall to the Bible. The etchings were created in the years 1931-1939 and 1952-1956; to May 12

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Robert Lehrbaumer: the pianist performs works by Brahms, Chopin, Liszt, Ravel and Schubert; 7.30pm; May 10
● Wiener Symphoniker: with conductor Mariss Jansons and cellist Heinrich Schiff perform works by Franck, Tchaikovsky and Stravinsky; 7.30pm; May 8, 9

■ ZURICH

OPERA
Opernhaus Zürich Tel: 41-1-268 6666
● Schlafes Bruder: by Willi. Conducted by Manfred Honeck and performed by the Oper Zürich. Soloists include Liliana Nichiteanu, Elizabeth Magnuson and Roberto Saccà; 7.30pm; May 8, 10, 12 (8pm)

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Martin Wolf

How the west failed Russia

While some eastern European states are now on the way to rapid economic growth, Moscow's repeated efforts at stabilisation have demoralised the population

Who has lost Russia? Of the possible outcomes of the presidential election due on June 16, only one – a clean victory by Mr Boris Yeltsin – would make it easy to avoid this question. If the Communist, Mr Gennady Zyuganov, were to win, if the election were cancelled, or Mr Yeltsin were to triumph by too palpable a manipulation of the poll, the opportunity for Russia to become a normal democracy with a normal market economy would, for now, be lost.

At best, relations between Russia and the west would become more difficult; at worst, the world would have to cope with a Russia more unstable and perhaps as disruptive as in Soviet days. If so, did the west fail Russia? Or were hopes for rapid reform always illusions?

The systematic divergence between what has happened in central and eastern Europe on the one hand, and the former Soviet Union on the other, is startling. Poland had two years of sharply falling real gross domestic product in the first phase of its transition. But since then it has enjoyed a strong recovery, with rates of economic growth of at least 6 per cent in 1994, 1995 and, as forecast by the European Bank for Reconstruction and Development, 1996[1].

While Poland is entering the promised land of rapid growth, Russia can but glimpse it in the distance. The EBRD forecasts its GDP in 1996 to be 44 per cent lower than in 1989, after six years of decline. But even this dire performance is better than that of Belarus and Ukraine.

The swift reformers of central and eastern Europe – the Czech and Slovak Republics, Hungary, Poland and Slovenia – have managed to raise life expectancies for both men and women since 1989[2]. In Russia, by contrast, male life expectancy collapsed, from 65 in 1989 to 57 in 1993. There can be no better indicator of the stresses that have made Mr Yeltsin so unpopular.

The decisive difference between the successful and unsuccessful reformers has been stabilisation. No market economy can emerge under hyper-inflation – or even very high and variable inflation. As William Easterly of the World Bank argues in the latest Economic Policy, stabilisation of high inflation has often led to immediate economic growth[3].

Unfortunately, while Poland needed just the one successful stabilisation effort, in 1990, Russia is on its fourth, as is pointed out by Professor Robert Skidelsky and Liam Halligan[4]. Inflation has been brought down – but too slowly. Between the end of 1990 and 1995, the Russian price level rose 3,900 times and inflation has been above 100 per cent in every year.

High inflation is a symptom of a state's collapse, but also, as Professor Jeffrey Sachs of Harvard University has noted on several occasions, also a cause. Speculators and criminals flourish, while long-term investors and the law-abiding despair. Russia, despite real successes, notably in its early efforts at mass privatisation, shows evidence of this spiral into political illegitimacy and social demoralisation.

As each successive effort at stabilisation failed, Mr Yeltsin had to throw another reformer off the back of his sledge – Mr Yegor Gaidar, then acting prime minister, in December 1992; Mr Boris Fedorov, finance minister, in January 1994; and Mr Anatoly Chubais, first deputy prime minister, in January 1996. As Mr Yeltsin has relied increasingly on members of the old power elite, they, in turn, have done what comes naturally: while the vast mass of the Russian people have lost almost everything they had, a tiny group has exploited opportunities afforded by their privileged status to seize huge unearned fortunes. The former Soviet Union has become a heavily armed Brazil. Unfortunately, as in Brazil, Russia's present degree of inequality is likely to prove incompatible with stable democracy.

Nothing is easier than explaining why Russia has found the transition vastly more difficult than Poland: Russians do not remember a market economy, while older Poles do; the Russians collectivised agriculture, while Poland retained an independent peasantry; Russians had only amoral Communism, while Poles had Catholicism; Russians think themselves heirs to a unique civilisation, while Poland aspires to be western: Russians had rule by former apparatchiks, while Poland – with Solidarity – initially had a clean break with the past; and Russians lost empire and ideology, while Poles found freedom.

Furthermore, Poland's economy was far less militarised than Russia's. It was also less dependent on trade with other communist countries than were the republics of the former Soviet Union, including Russia, on one another.

All these explanations are persuasive. But history is full of events deemed implausible in advance and inevitable in retrospect. Anybody who argued, in 1955, that the world's most successful developing economies would be Hong Kong, Singapore, South Korea and Taiwan would have been thought mad. For that matter, Poland's jump to the market was widely condemned at the time as unwise or impossible.

Reforming Russia was bound to be more difficult than for most countries outside the former Soviet Union. It was also more important. The collapse of the Soviet Union presented a danger and a great opportunity. Russia needed imaginative help to shore up its extraordinarily fragile state through an unprecedented transformation. But the west's role in the failed stabilisation of 1992 was grossly inadequate.

What was most needed was a few years of non-inflationary financing of the collapsing budget of the Russian state. Instead, the International Monetary Fund was left on its own, while western governments, to the extent they thought about Russia at all, were obsessed with who would service the Soviet Union's external debt. The reality was, of course, to be nobody.

To those who would argue that the money was either unavailable or would have been wasted, the answer is simple: between 1947 and 1990, the west spent over 10 trillion dollars in today's terms on defending itself against the former Soviet Union. If things have indeed gone irreparably wrong, it may be forced to spend comparable sums again.

Against that background, worries about the possibility of wasting the odd few tens of billions were risible. Who knows what would have happened if Mr Yeltsin and Mr Gaidar had been able to bring inflation down to an annual rate of, say, 50 per cent, by the end of 1992? Maybe a Communist would still be elected next month, but he would inherit a success, rather than an apparent failure.

Bordering on Europe in the west, the lands of Islam in the south and China in the east, Russia is the heartland of Eurasia. In the early 1990s the west had a brief chance to help it become a normal democracy. It could not afford not to seize it. Instead, it was frittered away by politicians and bureaucrats with the vision of accountants. The chance may never recur. If it does, the west will not deserve its luck.

[1]Transition Report Update (London: European Bank for Reconstruction and Development, April 1996); [2]Transition Report 1995, EBRD; [3]William Easterly, When is Stabilisation Expansionary?", Economic Policy, Centre for Economic Policy Research, April 1996; [4]Robert Skidelsky and Liam Halligan, Macroeconomic Stabilisation in Russia: Lessons of Reform 1992-95 (London: The Social Market Foundation, 1996).

Triumph and tragedy in post-Communist reform

Source: EBRD * Commonwealth of Independent States ** Forecasts

Politicians are putting too much faith in the magic of the Internet, argues **John Authers**

Education's hopes fall through the Net

Are politicians hoping for too much from the Internet, the global network linking businesses, universities and individual computer users through telephone lines? Particularly in education, the new online technology is now carrying a burden of expectation which could prove far too heavy.

The ferment is most obvious in schools, where last week both the UK's main political parties attempted to establish their educational credentials by unveiling plans to shower schools with extra computer hardware and link them to the Internet.

This follows a pattern already well-established by the private sector in the US, where Microsoft and America Online, respectively the world's largest software house and Internet provider, both offered free Internet equipment to schools – an offer which in Microsoft's case was taken up by more than 5,000 institutions.

Experiments have already shown that the Internet and video-conferencing technology can be used to improve school education in remote areas such as the Scottish islands and the Australian outback. But it is in higher and further education that the greatest hopes are attached to online technologies. They are seen as the best way to increase the number of people in post-school education because of the scope they offer to attract those who cannot attend formal courses, through "distance learning". This allows students to be taught through their personal computer screens, connected via the telephone network to colleges and universities.

American universities were among the first institutions to recognise the technology's possibilities. In the UK, higher education has similarly been in the vanguard of introducing online technology, with the introduction three years ago of the new SuperJANET network. This allows advanced researchers to communicate on-line with detailed multimedia images. Medical students can use it to watch surgeons perform operations "live", while molecular chemists can transmit complex diagrams which can be instantaneously compared with the results of other researchers.

Online technology is now an established part of the infrastructure of British universities. For example, Nottingham University has 4,000 Internet terminals on its campus, capacity that would allow each of the 12,000 students to spend eight hours a day online.

The inquiry chaired by Sir Ron Dearing into the future of universities plans to devote much of its time to the possibilities offered by a greater use of online technology. Labour meanwhile, is building plans for a new online University for Industry, which would deliver training courses directly to the workplace, using the Internet.

The success of the Open University, the UK organisation that uses radio and television for teaching, suggests there is a market for distance learning in higher education. During this academic year, the number of its students who have a directly interactive modem link with the university has risen from 5,000 to 16,000.

But, as officials at the Open University concede, its students tend to be far more motivated than the average, taking courses in their spare time.

> Nottingham University has 4,000 terminals on campus, capacity that would allow each of the 12,000 students to spend eight hours a day on-line

They are also wealthier than the average student – 74 per cent are in full-time employment.

It is doubtful if the method which serves highly motivated adults will be as successful in reaching the two-thirds of school leavers who do not go on to university now. These less motivated students are those likely to find it hardest to learn without the encouragement and individual attention given in traditional colleges and universities.

"It would be naive to think that all the expansion is going to be done through distance learning," says Mr Martin Gaskell, principal of Nene College, Northampton, a higher education college seeking university status. "Many of those new students will need close tutorial support face to face."

In the US and the UK online technology in universities is used to help researchers co-operate and to facilitate communication between students and tutors.

Nottingham University, one of the UK's most successful universities, sends up-to-date medical information to universities in Uganda which previously relied on textbooks published in the 1950s. Online technology performs such tasks successfully. But it is not necessarily helpful in reaching out to potential students among school-leavers; if anything, it makes the universities more exclusive.

According to Sir Colin Campbell, vice-chancellor of Nottingham university, computer-aided learning for students outside the campus is a possibility, but it has a lower priority than improving the university's internal networks.

The Internet has already performed one task for higher education by making the life of researchers easier. It may be unwise to expect it to perform the quite different task of increasing student numbers. The Internet has many uses, but they are not always those that are touted by politicians.

·LETTERS TO THE EDITOR·

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Offer choice either way

From Mr John Murray.

Sir, In the recent kerfuffle about the rights and wrongs of a referendum on Emu, much has been made of the people's right to decide on an issue as important as the abolition of sterling. The government has now announced that one will be held, if and when a Conservative cabinet decides in favour of monetary union.

What, however, if the government is inclined against participation? The economic and political consequences could be quite as great, and yet we are seemingly to be denied a direct say – a sorry prospect given the series of botched decisions which have marked our relationship with the EC and now the EU.

The prime minister affected with Germany's Chancellor Helmut Kohl to know the UK electorate's mind on Emu: I am not so sure. Unless a referendum is to be merely an additional obstacle to our involvement, it should be held to ratify a decision, whether to join or to stay out. The government, of whatever hue, should take steps in relation to the Maastricht criteria to ensure we are in a position to exercise a genuine choice either way.

John Murray,
9 Cambridge Street,
Tunbridge Wells,
Kent TN2 4SJ, UK

Gradual reform in Asia is a clear rebuke for Russian 'shock therapy'

From Prof Georgy E. Skorov.

Sir, In his letter of April 24, Prof Jeffrey Sachs has admitted that shock therapy cannot work magic in south Asian countries because they are "overwhelmingly rural, peasant societies". However, the record of shock therapy in "overwhelmingly urban, industrial" eastern Europe is hardly any better. The UN Economic Commission for Europe, in one of its recent economic surveys, made a critical assessment of this concept and the contradictory results of its application in the region.

The significance of Estonia and Slovenia, which Prof Sachs lists as success stories in eastern Europe, is of limited value. Small countries with a population, respectively, of 1.6m and 2.5m people, cannot serve as a model for Europe or the world. This is especially so with Estonia, whose achievements are largely due to windfall profits from re-export of smuggled non-ferrous metals from Russia. That factor made it the fourth largest world exporter of aluminium in 1993, though not a single ounce of it was produced on its soil.

Poland is another favourite example of shock therapists. True, the country has attained the highest growth rates in eastern Europe. But it also has the highest rate of unemployment – 15 per cent of the labour force. That, along with other social strains, was behind a massive vote for the ex-communist Alexander Kwasniewski at the presidential ballot in December 1995.

Hungary, the Czech Republic and Slovakia have successfully moved to a market economy by implementing more gradual and less painful reforms. China has also demonstrated advantages of a gradual pragmatic reform strategy adapted to national circumstances.

Russia, by contrast, has firmly chosen the path of "rapid" reforms totally unsuited to conditions. If there is a threat of the communist Gennady Zyuganov becoming the next president of Russia five years after the final demise of communism, it is largely due to Boris Yeltsin's confused reform strategy based on shock therapy and structural adjustment prescriptions. These policies discredited capitalism even before it was established in the country.

That is a lesson that cannot be ignored. Luckily, Asian nations follow a different path. Asian Development Bank backing of "gradual" reforms based on common sense, historical experience and national traditions plays a significant role in the picture and is a clear rebuke to shock therapy.

Georgy E Skorov,
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Nothing archaic about pre-emption rights

From Mr J.R. Gibb.

Sir, Sir, re rights issues, both the Office of Fair Trading and Lex ("UK underwriting", May 1) have lost their way over shareholders' interests. Pre-emption rights are not some ancient restrictive practice; they are an essential part of maintaining the position of existing shareholders, especially small ones. In the absence of pre-emption rights it is far too easy for existing shareholders to be diluted out of existence. This is not an imaginary notion – it used to happen. I suggest you get your Lex to read a little financial history.

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An unfortunate constitutional comparison between US and UK

From Mr C.W. Raper.

Sir, Michael Prowse's article "Free from Royals" (May 6) is as remarkable for its blinkered ignorance as for its snide innuendo. Many of the practices in the US which he lauds in comparison to the despised British ways are, themselves, far from the perfection he claims.

The American "aristocracy" (and if one supposes the US to be free from class distinctions one has only to look at the plethora of social "A" and "B" lists, and societies restricted to descendants of the Mayflower, the Revolution and the Civil War) is apparently largely dependent on wealth. Why should that make it superior to the British aristocracy, for most of whom *noblesse oblige* has an enduring relevance, and whose sense of duty plays such an important part in charitable and public works?

The US judiciary is appointed for political reasons – the same reasons as Mr Prowse derides in respect of the House of Lords' political appointments. Is it better to have senior legislators appointed because of a lifetime of distinguished service in the law, or because of political favours and a perceived need for "political correctness"?

While it may be true that the top echelons of UK business have in the past been appointed from those who attended the "right" schools or universities, ability is now the overriding criterion. Mr Prowse's comments about the "supposed dominance of upper-class east coast families" are as relevant to the UK as he claims them to be to the US. The far from privileged origins of John Major, the prime minister, are well-known. The demonised House of Lords has, time and again, proved to be a useful brake on the acts of the Commons. As for the attack on the Queen, I would suggest that a large majority of Britons (and other nationalities) would prefer to have an apolitical head of state with a record of selfless service than yet another politician with all the seemingly ubiquitous attendant scandals that completely overshadow the over-publicised private misfortunes of the royal family.

Mr Prowse suggests that he might like to appoint himself emperor of somewhere. With his apparent penchant for self-exposure, he ought to buy himself a new set of imperial clothes while he is at it.

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FINANCIAL TIMES

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World trade at risk

The failure of World Trade Organisation members to reach an agreement by last week's deadline to open global telecommunications markets is a setback not only for efforts to liberalise an important growth sector. It also augurs badly for the still larger tasks of defining a coherent agenda for multilateral trade policy and of establishing firmly the role and authority of the WTO.

Though extension of the telecoms talks may lead to a deal next year, the inconclusive outcome is deeply disappointing. An agreement would have provided badly needed political impetus ahead of the WTO's first ministerial meeting in Singapore next December. Instead, the result is a further loss of momentum, already impaired by the near-collapse of last year's financial services negotiations and the impasse in WTO talks on maritime services.

In all these negotiations, the US has been the main problem. It was never likely to do much in a presidential election year about the sensitive issue of maritime services. But its stance on telecommunications is more surprising. US competitive strength in this sector is unchallenged and it had seemed to want a WTO agreement. After the better-than-expected negotiating offers by many developing countries, the US claim that it balked at a deal because of foot-dragging by a few is unconvincing. Washington's last-minute vacillation in the face of industrial and political lobbies looks the more likely culprit.

Unproductive squabbling

The fear is that such equivocation reflects a more fundamental weakening of US commitment to the multilateral trade system. Washington has already signalled that it views the December meeting as a routine stock-taking. Its main interest will be in pushing for action on labour standards and corruption. Its demands enjoy support from some industrialised powers, but they are opposed by other WTO members. Without a more substantive agenda, the meeting could be reduced to unproductive squabbling.

That reinforces the need for a firmer consensus on the longer-term development of the multilateral system. The WTO is still far from agreement on this central issue. It is essential if the organisation is to meet the challenge of trade regionalism and growing protectionist pressures in the industrialised world. If these trends eroded multilateral principles, every country dependent on a prosperous global economy would lose.

Sir Leon Brittan, Europe's trade commissioner, wants the December meeting to pave the way for another comprehensive trade negotiating round. His proposal may be too ambitious. But it is on the right track. The WTO needs to have its activities underpinned by a solid drive for further liberalisation. How this can best be achieved should be high on the near-term agenda of regional trade groupings, as well as of individual governments.

Regional groups

Progress need not require a formal round, which many countries are reluctant to contemplate. The multilateral system could be greatly strengthened if countries and regional groups acted more boldly to open markets unilaterally. The EU should take the lead by undertaking to scrap minimal "nuisance" tariffs and, better still, by accelerating the opening of its textiles and agriculture markets. Members of the Asia Pacific Economic Co-operation forum need to extend their planned liberalisation to all trading partners. Emerging economies which are already lowering barriers unilaterally should make such moves irrevocable by "binding" them in the WTO, and eschewing other forms of protection, such as for infant industries.

Some would doubtless oppose such an exercise, arguing that it does not guarantee reciprocal concessions. But countries need to move beyond the idea that they gain only by improving access to others' markets, and lose by opening their own. As many developing countries now accept, exactly the reverse is true. Others, particularly in the industrialised world, need to recognise it. That would not only reinforce the global trade system; it would do their own economies a power of good.

Alliances, bids and jobs

Conventional wisdom tells us that as economies grow richer, the demand for financial services increases. Yet much of the financial news in the economies of the developed world has recently been about downsizing and cost cutting, rather than the generation of increased revenue. In the English-speaking economies, takeovers and mergers have become an especially potent engine of rationalisation. And the proposed merger between Royal Insurance and Sun Alliance suggests that the impetus may now be shifting from banking to insurance. With 5,000 jobs expected to go as a result of the merger, of which 4,000 are in the UK, this sounds like the kind of news the British labour market could do without.

To portray such mergers and acquisitions as purely a matter of cost cutting is nonetheless an over-simplification. There are undoubtedly areas of UK banking where rationalisation is needed. Capacity in the late 1980s had been geared to a level of mortgage and housing market activity that was unsustainable. Against that background Lloyds Bank's acquisition of the TSB group, the Halifax/Leeds building society merger and Abbey National's takeover of National & Provincial can be seen as part of an unavoidable shake-out in the retail banking market, which still has a long way to go.

Equally important, technology is imposing big structural adjustments on the financial services industry. The nature of banking relationships is changing, as automated teller machines distance the bank from the customer, while direct telephone banking brings them back together again in a different format. These changes have undermined the rationale of the banks' branch networks.

Lower costs

In insurance, where fixed costs have been lower than in banking, the advent of direct selling by telephone by companies like Direct Line is transforming the economics of the industry. The need for big investments in information technology and marketing means that mergers and acquisitions can provide a way of achieving lower costs per insurance policy where fixed costs can be spread over a larger number of customers. Increased transparency in life assurance and pensions, meantime, is imposing a Big Bang on the industry, which will lead to a significant reduction in the number of players.

It does not follow from this that all the acquisition and merger activity is defensive. The Royal and Sun Alliance merger, for example, is driven partly by the need to develop a more powerful international presence. After a long period of introspection on the part of UK insurers, there may now be a sustained attempt to catch up with foreign competitors which have stolen a march. As for Halifax's proposed acquisition of Clerical, Medical and General, it is opportunistic in the sense that it seeks to take advantage of the trend towards convergence in retail financial services.

Mature businesses

The more important point, as far as the jobs market is concerned, is that while the older and more mature businesses are cutting jobs, younger businesses like Direct Line have been creating new jobs elsewhere in the sector. In the case of Midland Bank's telephone banking operation First Direct, the job destruction and job creation have been taking place within the same organisation.

The process of creative destruction is nonetheless hugely stressful for those involved. It also spells the death of paternalism in a financial sector where the prevailing ethos for much of the post-war period had more in common with the civil service than the tradeable goods sector of the economy. Yet the fruits of earlier paternalism, in the shape of accumulated pension fund surpluses, can be used to finance generous redundancy payments which help mitigate the pain. In this respect white collar workers in banking and insurance are more fortunate than those who lost jobs in the 1980s in manufacturing, where pension provision was at a much lower level.

For the middle classes, downsizing has brought a new and pervasive sense of insecurity. But they should not forget that for blue collar workers, this has long been a condition of existence.

Half a celebration for Chirac

Things are beginning to come politically and economically right for the French president at the end of his first year, says **David Buchan**

For Jacques Chirac, the first anniversary of his election as president a year ago today is not nearly as bad as he might have feared. Five months ago France was crippled by public-sector strikes.

Since then, the Gaullist president has seen his standing rise in the opinion polls. He has given France a higher international profile and he recently helped to broker the truce in southern Lebanon between Israel and Hizbollah. Although France's involvement irritated some Americans it helped to overcome the bad taste left by his decision to test nuclear weapons in the Pacific.

The economy shows signs of recovery, and the financial markets seem to approve of the government's handling of it. The franc is trading strongly against the D-Mark while France has had the great satisfaction of seeing the yield on its long-term treasury bonds sink last week to below the rate on German bonds. This is seen as an indication of renewed confidence in the government.

But Mr Chirac should only pour himself half a glass of celebratory champagne today. He is certainly not back on the path he might have hoped for this time last year. His positive rating in the opinion polls is still well below those of his predecessors, François Mitterrand and Valéry Giscard d'Estaing, after a year in office. In an anniversary article in yesterday's Le Monde, the French president could offer nothing more alluring to the electorate than to proclaim the need to "go further in cutting public spending because this is the only way to start reducing taxes from 1997".

This call for more sacrifice stems from the president's desire to push France's deficits down as close as possible to 3 per cent of gross domestic product next year in order to help it qualify to be a founder-member of European economic and monetary union. But the prospect of France hitting the 3 per cent target next year is far from guaranteed. In addition, there is a growing concern that continued austerity policies could jeopardise the government's parliamentary majority in the 1998 elections.

Mr Chirac has certainly hit his stride in fulfilling the curious mixture of roles demanded of a French president under the Fifth Republic. His more informal approach appears to please a public that had wearied of the aloof style of his predecessor. In foreign and defence policy, his special constitutional prerogatives, he has been ready with the grand gesture – on Bosnia, Lebanon, nuclear testing and disarmament, and Europe – that his Gaullist constituency expects. Following General de Gaulle's belief that domestic issues were somehow secondary to foreign affairs, French presidents tend to subcontract economic and policy to their prime ministers, and Mr Chirac is no exception.

He makes public forays into domestic policy: a speech here on France's "social fracture"; a visit there to a poor district; and a series of interventions in cabinet which range from encouraging and admonishing ministers to his recent extraordinary attack on superstores for "corrupting" planning officials, "blackmailing" suppliers and pushing small shopkeepers (a traditional Gaullist constituency) out of business. But the real power which the president wields in domestic policy is exercised largely behind the doors of the Elysée palace.

His loyalty to Mr Alain Juppé, his prime minister, means that the inherent weakness of the Fifth Republic – the dependence of the prime minister on his presidential master – is not exposed.

Jacques Chirac: the president is putting some of last year's troubles such as public-sector strikes behind him

This is not to say that Mr Chirac has not had his doubts about Mr Juppé's policies or personality; it took the president more than five months publicly to support Mr Juppé's deficit-cutting last October, while during the strikes unleashed against the Juppé welfare reforms last December, Mr Chirac stayed almost totally silent. Nor does it mean that Mr Chirac will not ditch Mr Juppé sometime during his remaining six years in the Elysée; the latter will in any case want a break from his often thankless job if he is ever to have a tilt himself at the Elysée.

But for the moment the Chirac-Juppé team seems solid. Both men have improved their standing in the opinion polls, but Mr Juppé remains about 10 points behind Mr Chirac, suggesting that he is no longer dragging the president down but acting as a lightning rod for public discontent and deflecting it from him.

With Mr Chirac behind him, Mr Juppé is recovering his nerve. To defuse the strikes in December, he abandoned his plan to streamline the SNCF state railways and to cut civil servants' pension benefits back into line with those of the private sector. But Mr Juppé argues, plausibly, that 90 per cent of his welfare reforms, particularly the trimming of extravagance in the health system and bringing social security under parliamentary (and thus government) control, have been put into effect. It remains doubtful whether the reforms were ambitious enough in the first place to bring about the modest social security surplus in 1997 on which the government's Maastricht arithmetic on deficits depends.

On other fronts, Mr Juppé is also moving ahead. After only 45 per cent of France Télécom's 155,000 employees joined a protest strike last month against privatisation, Mr Juppé is preparing a bill which would permit the state to sell 49 per cent of the utility's capital to employees and outside investors. Significantly, one of the unions which has agreed to open negotiations with France Télécom's management on privatisation is Force Ouvrière, which at the national level led the December strikes along with the pro-communist CGT union.

At Mr Chirac's urging, Mr Juppé is now taking much more care to prepare the ground for his next attempt to put public finances in order than he did over welfare reform last autumn.

The two men yesterday started a co-ordinated campaign to prepare the country for deep public spending cuts in the 1997 budget – Mr Chirac by penning his article in Le Monde and Mr Juppé by sending every MP a thick document on the French budget crisis in advance of the debate on that budget in the National Assembly next week.

That budget will not be unveiled until September or October, but the aim of Mr Chirac and Mr Juppé is to start driving some impressive figures into the heads of MPs and ministers now. One of these is the likely cost (FFr226bn) of debt servicing, which will account for 80 per cent of this year's budget deficit and 20 per cent of tax revenues.

The point the government wants to drive home is that budget cuts are in France's interest. Deliberately, Maastricht is never mentioned, although the treaty is at the back of everyone's minds.

Whatever level of cuts in spending programmes and even in civil servants' numbers the government can eventually force through, meeting the Maastricht targets will also depend on economic activity. The 5 per cent rise in January in consumer durable sales has proved to be a correction after the strike-caused decline in December rather than the start of a steady trend.

But surveys of industrialists, who have been heartened by interest rate cuts, confirm the government's hopes for strongish recovery in the second half of this year. Unemployment is still rising slowly, but a hopeful sign came in March with a 3.2 per cent increase in job vacancies, often the precursor of a turnaround. It is therefore possible that France may confound the predictions of most international financial organisations and market analysts by coming very near in 1997 to meeting the Maastricht criteria.

In theory, the absence of elections this year and next should give Mr Chirac and Mr Juppé some political elbow room to push through unpopular measures. But in doing so they will not want to wreck their chances in 1998 – the year of all elections when membership of the National Assembly, regions, cantons, and one-third of the Senate is up for grabs.

In the 30 parliamentary elections held since Mr Chirac came to power, the left has taken eight seats from the ruling centre-right coalition parties as the Socialist party begins its comeback under Mr Lionel Jospin. A growing number in the governing majority, particularly the Gaullist followers of Edouard Balladur, the former prime minister, and the new leadership of the UDF federation under Mr François Léotard, argue that only clear promises of tax cuts and an end to austerity will keep the centre-right in government after 1998.

Mr Chirac might encourage Mr Juppé to broaden his government next year to include ringleaders of this "awkward squad" of tax-cutters, as one adviser to Mr Juppé recently suggested in private. But they would demand a price for coming in to government, and Mr Chirac cannot be insensible to the possibility of ending the final four years of his term in cohabitation with the left.

· OBSERVER ·

Doris shows how to do it

■ Ennio Doris and Silvio Berlusconi have a lot in common. Both are rich, self-made Italians with a reputation for charismatic management. They also each own half of Mediolanum, the life insurance and financial services business, which goes public this month. At 55, Doris is slightly younger and ruddier-faced than the permanently bronzed media magnate, but he shares Berlusconi's habits of smiling a lot and wearing double-breasted suits.

Doris linked up with Berlusconi in 1982 to sell insurance, but it seems he's now begun to show a flair for broadcasting, the former premier's favourite business. Launching the Mediolanum investment roadshow yesterday in Milan, Doris boasted about the high-tech links between HQ and the sales force. Once a week at dawn, Mediolanum transmits an hour of product information, market news and training tips to its 2,700 sales people, via a specially encoded channel borrowed from Telepiù, the pay-TV company founded by Berlusconi.

It sounds like a classic example of synergy with Mediaset – Berlusconi's media company, also due for flotation this summer – but Doris says the television programme is all his own work. "The Mediolanum programme is prepared in-house," he says, "and at a cost that some other companies can only dream of." Maybe Berlusconi, now devoting his time to leading Italy's political opposition, should watch out.

Inside a thin man

■ Anyone noticed the remarkable resemblance between Catherine Deneuve, the film star, and Donald Trump, the ravishing sex symbol famous for the size of his condominiums? Well, yes.

A female reader wrote to the *New York Times* the other day asking why a recent article about The Donald had made no reference to his figure, when the accompanying photograph showed that he appeared to have put on some weight. Pointedly, she noted that a profile of Deneuve the day before had contained the remark: "She is perhaps not as slender as she once was."

This prompted a lively riposte. The vainglorious Donald wrote in to say that if he had truly put on weight, like Deneuve, it should have been mentioned: but that, in reality, the picture made him look much heavier than he was, and in fact was "not correct".

More realistically, however, another reader – predictably, male – suggested that the lack of any reference to The Donald's growing girth was easily explained; he had never appeared nude in a movie that made his shape a matter of interest. Give him time.

Pig-headed?

■ Britain's embattled farm minister Douglas Hogg seems to have taken a vow of silence since arriving in Otranto – situated on the tip of Italy's heel – for a two-day informal gathering of EU agriculture ministers.

Inquisitive hacks have failed to elicit a word from Hogg, who has been taking full advantage of the fact that ministers, while normally perfectly helpful, are not actually obliged to face the press. It's therefore appropriate that Walter Luchetti, the Italian host, has chosen the San Domenico monastery for the ministers' final working session today. This holy place used to be run by Dominican monks, known as "the order of the preachers" because of their zealous evangelism. Expectant journalists hope Hogg gets the point before jetting back to London.

Most inflammatory

■ Crédit Lyonnais isn't the only group counting the cost of Sunday's fire, which ravaged its elegant 19th century Parisian headquarters. One of the bank's main insurers is Assurances Générales de France, poised for sale in France's first large privatisation of 1996.

AGF executives assembled in Paris for a press conference launching the sale yesterday said the bank had been right to say the FFr1.5bn building was well insured "because it is insured by us". But they were careful to emphasise that AGF's bottom-line exposure on the fire was limited to FFr40m.

Antoine Jeancourt-Galignani, AGF's chairman, added that the group had put its property team at the bank's disposal, to help them find suitable alternative accommodation. Which shouldn't be too difficult, even in the well-heeled Opéra district, where the building is located. Paris office capital values have slumped in recent years, and 'to let' signs are ten-a-penny.

Also evident was Jeancourt-Galignani's distaste for franglais. Terms such as "le claw-back" and "le greenshoe" – both of which he was forced to use in his presentation – were, he declared, "absolument barbares". Observer agrees. So a bottle of malt whisky to the sender of the best French alternative for either or both: faxes only please to *+44 171 873 3926*, or a letter to the usual address.

Sanity and the cow

■ Latest bumper sticker in Montana, the US state that is home to cattle, the Unabomber suspect and the "Freemen" currently resisting the FBI: "Montana – at least the cows are sane."

Financial Times

100 years ago

Importance of Pearl Harbour

The Senate Committee on Foreign Relations has agreed to the Bill for the construction of a United States-Hawaii-Japan cable, and authorises the Postmaster-General to contract with any company to lay the cable, the subsidy not to exceed $160,000 yearly. The report declares that the Hawaiian cable is demanded by the exigencies of commerce. It refers to the importance of Pearl Harbour and the necessity for telegraphic communication with Hawaii to direct the operations of the Pacific Fleet in the case of war.

50 years ago

The French referendum

Paris, 6th May.- The Referendum result acted as a tonic on the Paris Bourse to-day, which opened with a boom. The rejection of the proposed new constitution was generally unexpected, and the comparatively large "No" majority was particularly surprising. The market rightly or wrongly is now certain that any future Assembly will not vote for additional nationalisation and hopes for improved compensation terms for enterprises already nationalised.

FINANCIAL TIMES
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Digital technology launch scheduled for 1997

BSkyB plans up to 500 more TV channels in UK

By Raymond Snoddy in London

British Sky Broadcasting, the satellite television venture, is expected to confirm today that it plans to launch digital satellite television in the UK in autumn 1997 and offer an unprecedented number of television channels.

The satellite company, now capitalised at more than £8bn, ($12bn) is planning to launch up to 500 channels of television for the British market.

BSkyB, is expected to clarify its intentions today in a statement accompanying its first quarter results which will show continuing growth of both subscribers and revenue.

BSkyB has been making preparations for the move for some time and has leased capacity on two Astra satellites devoted entirely to digital TV which already have been successfully launched.

The company has, however, been cautious about the timing of the move because of its 4m customers with satellite dishes using existing analogue technology.

BSkyB is planning to offer a huge number of channels to persuade its customers to trade up to digital decoders – the black boxes that enable viewers to watch the satellite signal.

The BSkyB approach will be to work in partnership with as many broadcasters as possible to make the overall package of channels as diverse and attractive as possible. It has announced a joint venture with Granada Television for eight new channels to be launched later this year and then transfer to digital.

But BSkyB has also been talking to the BBC about the possibility of the Corporation providing up to 12 new channels for the digital system. Preliminary talks with Mr Richard Branson's Virgin Group have discussed providing channels for young people.

Digital television has already been launched in the US, Africa, South America, France and Italy and will be launched in Germany this summer. Digital technology allows eight to 10 channels to be carried in the satellite capacity currently transmitting one channel, thereby cutting the cost of broadcasting.

Apart from offering a large number of new channels, digital TV will enable BSkyB to move to near-video-on-demand. NVOD involves setting aside anything from 60 to 100 channels for a small number of top films.

As many as six channels are devoted to a single film and the starting times are staggered so that viewers are always only a short time away from the beginning of a movie they want to see.

Digital satellite will also transform sports coverage. If agreement is reached with the Premier League, BSkyB will be able to show all Premier League games simultaneously on a subscription basis. Pay-per-view football via digital satellite is being launched by Canal Plus in France and by Telepiu in Italy at the start of the next football season.

Philippine president orders a kidnapping crackdown

By Edward Luce in Manila

President Fidel Ramos yesterday ordered 56 Philippine courts to concentrate exclusively on kidnapping and related cases in the wake of a survey which said the Philippines was the most dangerous country in the region in which to do business.

The survey, published in Hong Kong by the Political and Economic Risk Consultancy, says expatriate business managers rate the Philippines as the least safe country in east Asia owing to a spate of recent kidnap-for-ransom cases.

The poll, rating countries from one to 10, put the Philippines at 7.24, with Singapore as the safest with a ranking of 1.25.

"We vehemently disagree that the Philippines is the most unsafe country in Asia," said Mr Hector Villanueva, spokesman for Mr Ramos, yesterday. "In Myanmar [Burma] people just disappear. I do not think that is happening here."

Mr Ramos yesterday ordered the specially designated kidnapping courts to take a maximum of 90 days per case as the government unveiled measures to combat kidnappings of relatives of leading Philippine businessmen, who are usually Filipino-Chinese.

Since 1992 there have been more than 600 cases of kidnapping, over 50 of them this year. Chinese-Filipinos, roughly 2 per cent of the population, make up about 60 per cent of the economy by market capitalisation.

"The kidnappers target the Chinese-Filipino community and other Chinese because they are the most successful business group," said Ms Teresita Ang-See, head of an anti-kidnapping group in Manila. "They also target the Chinese because the Chinese are very liquid so they can pay up quickly and because they rightly do not trust the police."

Pressure on the government, which has admitted that senior police officers are involved in kidnap protection rackets, has mounted since the murder by kidnappers last month of 19-year-old Mr Luis Ongpin, nephew of a former finance minister.

Philippine officials say the problem is more to do with perception than reality. With foreign investment more than doubling in the last three years, publicity surrounding kidnappings has increased a sense of alarm, they say. Recently the 18-year-old son of a Taiwanese diplomat, Mr Huang Ronghua, was released after a ransom of 1m pesos ($38,500) was paid.

"What should be corrected is the sensationalising of isolated heinous crimes," said Mr Villanueva. "There are probably more crimes committed in Manhattan in one week than in six months in Manila."

Austrian Communists sue Bonn over cold war profits

By Eric Frey in Vienna

Austria's minuscule Communist party has not won a parliamentary seat in 40 years. But the unchastened Stalinists were far better at making profits than winning votes.

Now a case brought in a Berlin court yesterday could make the party richer by the equivalent of DM100,000 ($67,000) a member.

The party claims that DM500m in assets held by the German government are the fruits of its labours – some might say of its successful exploitation of a cold war market niche – as a broker between east and west.

Companies controlled by the unswervingly pro-Moscow Communist party earned huge commissions in the 1980s by arranging business deals between western companies and East European authorities.

They came to an abrupt end with the fall of communism in 1989 when discredited East bloc party officials scampered for cover and for safe places to hide the money they were about to lose control of. The question now before the Berlin court is not whether a devoutly Marxist party with 5,000 members and which won 14,000 votes at the last election in December should have amassed such a fortune – but to whom the money belongs.

The plaintiff in the Berlin court case is Ms Rudolfine Steindling, manager of the Austrian Communist party-owned trading company Novum.

After German unification, the Bonn government froze Novum's assets, claiming the company was a front for the East German Communist party and its financial wheeler-dealer Mr Alexander Schalck-Golodkowski.

For the German government, the trial is part of a frustrating hunt for East German state funds that were transferred abroad in the chaotic months between the fall of the Berlin wall in November 1989 and unification in October 1990.

In 1992 the Treuhand, the agency which took over all East German state assets, sued Ms Steindling for allegedly transferring DM450m from East Berlin through Austrian banks into Swiss accounts. This case is still pending, but a Berlin court lifted an international warrant against Ms Steindling last month because of lack of evidence.

Now Ms Steindling is fighting back. Her lawyers are arguing in court that Novum was really an Austrian company that acted as an intermediary between East Germany and western companies such as Voest-Alpine, the state-owned Austrian steel group, Ciba-Geigy, the Swiss chemicals concern, and Bosch, the West German electronics group.

The two sides want to call up to 200 witnesses between them in the coming months. The trial could last several years and the outcome is hard to predict, say legal experts.

A victory for Ms Steindling would not only be embarrassing for the Germans, but would also make the Austrian Communists the country's richest political group.

The party leadership has made clear that regardless of its ideological leanings, it will fight for the money until the bitter end.

European groups to make joint missile bid

Continued from Page 1

monopoly of the international market with the Amraam.

However, the UK is concerned that the Pentagon will not release the full technical data on Amraam to foreign countries, limiting any buyer's understanding of how the missile works. The US could also bar exports of Amraam to third countries by the UK, effectively giving it a veto on Eurofighter exports.

Hughes's bid for the UK contest will have to attempt to overcome these difficulties, which may prove hard.

As a result, the new European consortium is strongly placed to win the contest, provided its design is sufficiently advanced.

Sweden, Germany, Italy and Spain are likely to be observers at the UK competition, allowing them to evaluate the technical merits of the two rival bids.

A decision is expected in the UK contest in the spring of 1997.

THE LEX COLUMN

Spoilt for choice

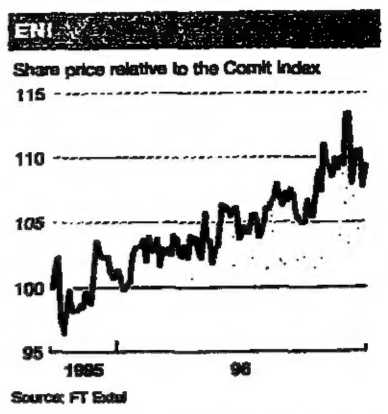
The prospects for Italian privatisations have never looked better. Three of privatisation's greatest political proponents – Messrs Romano Prodi, Carlo Azeglio Ciampi and Lamberto Dini – are likely to be at the core of Italy's new government, when it is formed over the next fortnight. Meanwhile, the Italian markets have reacted ecstatically to an election victory by what seems to be a fiscally responsible coalition.

The Treasury's L10,000bn ($6.45bn) target for privatisation proceeds looks safe. The sale of residual holdings in Ina, IMI and Eni should be easily achievable and should raise at least that sum. Nonetheless, the government should not get carried away. It has a unique opportunity to broaden Italy's diminutive equity market, provide Italian industry with an alternative means of raising capital, and introduce competition for the monopolistic merchant bank, Mediobanca. It is unlikely to help the process by trying to force through sales of Stet and Enel, the monopoly telecoms and electricity companies, this year. Neither have regulatory authorities up and running yet. Enel is struggling with accusations of price rigging, while the authorities have still to decide on a structure for Stet. Moreover, both issues would be likely to clash with Deutsche Telekom's $10bn share offer, due in November.

There are plenty of alternatives to choose from, such as Autostrade. And if the government wants to achieve more than just debt reduction, it should turn to the banks. Not only are there too many banks, but too few bank managements are accountable to anyone. The treasury should speed up the sale of Banca Nazionale del Lavoro, as well as applying moral suasion to the bevy of banks owned by charitable foundations.

French/German bonds

For a Gaullist government, it must be particularly pleasing to note that French long-term interest rates have fallen below those paid by the German government on domestic debt. The implication is that France is now considered more creditworthy than Germany. There are some grounds for believing this. Germany's budget deficit problem now looks even worse than its neighbour's, and the French may solve theirs sooner. Not only does this make France's deficit appear less gruesome, it also means it matters less: since even Germany is unlikely to meet Maastricht targets, failure to do so is hardly likely to block France's participation in a single currency.



In fact, the growing realisation that France and Germany will both be among the first members of Emu, despite overshooting monetary targets, is the main reason for the re-rating of their debt. The D-mark, traditionally Europe's hardest currency, will be weakened by monetary union while the franc will be strengthened.

For this reason, domestic investors have become reluctant to buy German government debt. Foreign buyers, traditionally overweight, are also reassessing the market. French bonds, on the other hand, have benefited from a surge of liquidity. Tax incentives and low deposit rates have encouraged more investors to buy life insurance policies, funded by bonds. And international investors are still underweight. Given these flows of funds, the small gap between the two markets may even increase.

Return on investment

How do you know a company is doing well? When earnings per share (eps) are growing rapidly, would be the standard reply. Eps is the main valuation yardstick used by investors; it has also become something of a fixation within companies. Rentokil, most famously among UK companies, has a target of boosting eps by at least 20 per cent a year. One of the reasons it gobbled up rival services group, BET, was to keep that growth rate going for a few more years.

But eps is not a holy grail in determining how well a company is performing. This is not merely because managements still have latitude in deciding what earnings to report; it is also because eps growth says little about whether a company is investing shrewdly and managing its assets effectively. It may, for example, be possible to boost eps by stepping up the rate of investment. But unless the return on investment exceeds the cost of capital, a company will be destroying value. For this reason various measures of return on investment (ROI) are increasingly in vogue.

Unfortunately, the crude figures for return on capital employed – operating profit/capital employed – that can be derived from a company's accounts are virtually useless. Here, the biggest problem is not so much the reported operating profit as the figure for capital employed contained in the balance sheet. Not only are assets typically booked at historic cost, meaning they can be grossly undervalued if inflation has been high since they were acquired; the capital employed is also often deflated by goodwill write-offs. Once balance sheets have been shrunk, pedestrian profits translate into fabulous returns.

A mini-industry has sprung up to help investors and companies themselves navigate around the pitfalls of accounting-based returns. Two of the best-known methods, Holt's cash flow return on investment and Stern Stewart's economic value added approach, were both developed in the US. Though the details vary, the essential idea is the same: clean up a company's reported figures and so get a better picture of what rate it is earning on its investment.

A clean measure for ROI has several uses. One is to judge how well a company is performing. If a company's ROI is below its cost of capital and it is still investing, the *prima facie* conclusion is that value is being destroyed. There are, of course, caveats: start-ups can endure sub-par ROI provided exceptional returns are in prospect as they mature; and, even if a company's average returns are too low, incremental investment can still make sense, provided it earns a decent return. But if neither caveat applies, investors should tell management to smarten up its act or face the axe.

Another use for ROI is in valuing equities. If a company's ROI is 20 per cent but its cost of capital is 10 per cent, a first stab at its worth would be twice its "cleaned-up" asset value. There are caveats here too. One needs to be confident that the company can maintain super-normal profits in perpetuity – typically, it is more realistic to assume that competition will gradually erode returns. It is also necessary to judge what scope a company has to make new investments that will earn exceptional returns: the more opportunities, the better.

While an unthinking use of ROI is no better than an unthinking use of eps, it is a useful tool in a shareholder's kitbag. The more it is used, the more efficiently capitalism will work.

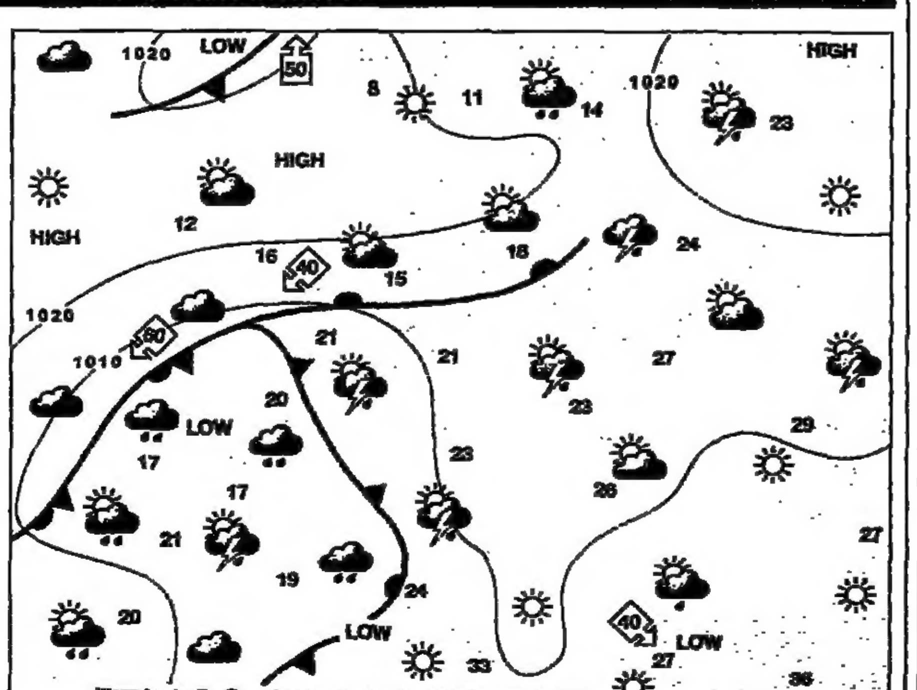
FT WEATHER GUIDE

Europe today

South-west Europe will be unseasonably cool and unsettled. Most of the Iberian peninsula will have frequent rain or thunder showers. France will be warmer but will have showers later. Cloud and patches of rain will linger near a front from Brittany across northern France to southern Poland. North of this front, north-easterlies will draw cool air over the Low Countries and northern Germany where it will remain dry with sunny spells. High pressure will promote calm conditions with sunny periods over the British Isles and southern Scandinavia. Thunder showers will develop over a wide area from the Balkans towards Moscow. The south-east Mediterranean and Black Sea areas will stay sunny and warm.

Five-day forecast

The Mediterranean area will remain unsettled during the next couple of days but the south-east will be dry, sunny and warm. Warm conditions with sunny spells will also persist across the Balkans and most of Russia. However, isolated thunder showers will develop each afternoon. Some of this warm air will be drawn towards western Europe during the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	41
Accra	fair	30
Algiers	shower	19
Amsterdam	fair	14
Athens	sun	26
Atlanta	fair	32
B. Aires	sun	26
B.ham	fair	14
Bangkok	thund	37
Barcelona	rain	17
Beijing	sun	21
Belfast	cloudy	12
Belgrade	shower	23
Berlin	fair	15
Bermuda	fair	23
Bogota	shower	19
Bombay	sun	34
Brussels	cloudy	17
Budapest	thund	23
C.hagen	sun	11
Cairo	sun	36
Cape Town	sun	21
Caracas	cloudy	29
Cardiff	sun	16
Casablanca	shower	22
Chicago	thund	15
Cologne	cloudy	19
Dakar	sun	30
Dallas	fair	32
Delhi	hazy	41
Dubai	sun	40
Dublin	fair	12
Dubrovnik	shower	24
Edinburgh	cloudy	12
Faro	fair	20
Frankfurt	fair	20
Geneva	shower	21
Gibraltar	fair	19
Glasgow	cloudy	13
Hamburg	fair	14
Helsinki	fair	10
Hong Kong	thund	28
Honolulu	fair	29
Istanbul	fair	27
Jakarta	fair	32
Jersey	rain	14
Karachi	sun	38
Kuwait	fair	40
L. Angeles	fair	23
Las Palmas	fair	25
Lima	fair	23
Lisbon	shower	16
London	fair	16
Lux.bourg	cloudy	19
Lyon	thund	22
Madeira	shower	20
Madrid	shower	18
Majorca	shower	20
Malta	sun	23
Manchester	fair	13
Manila	fair	35
Melbourne	cloudy	18
Mexico City	fair	25
Miami	fair	30
Milan	cloudy	20
Montreal	fair	16
Moscow	thund	23
Munich	shower	19
Nairobi	fair	27
Naples	fair	23
Nassau	fair	31
New York	cloudy	15
Nice	cloudy	20
Nicosia	sun	31
Oslo	fair	13
Paris	cloudy	21
Perth	cloudy	22
Prague	shower	16
Rangoon	shower	31
Reykjavik	sun	5
Rio	fair	25
Rome	fair	23
S. Frsco	fair	19
Seoul	shower	21
Singapore	fair	32
Stockholm	fair	11
Strasbourg	fair	22
Sydney	fair	20
Tangier	fair	21
Tel Aviv	sun	31
Tokyo	fair	19
Toronto	fair	13
Vancouver	shower	14
Venice	fair	21
Vienna	thund	20
Warsaw	fair	18
Washington	shower	19
Wellington	fair	16
Winnipeg	cloudy	16
Zurich	cloudy	20